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ABSTRACT

This study investigates how the financial viability of the private college might be strengthened through a change in financial assistance programs. The first part deals with existing practices. The financial background against which student assistance programs must be viewed, the "market" in terms of admission and experience, and the existing financial aid patterns of member colleges are discussed. The second part deals with directions of change. In the third part, a number of consortial activities related to financial assistance are considered. Finally, a fourth section deals with topics related to productivity and educational costs. (MJM)

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STUDENT FINANCIAL AID AT PRIVATE COLLEGES

by

MORTON A. RAUH

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STUDENT FINANCIAL AID
AT PRIVATE COLLEGES

A Study of the Twenty-Four Colleges
Comprising the Associated Colleges of the Midwest
And the Great Lakes Colleges Association

by

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Yellow Springs, Ohio

December 1972

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may be obtained from

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Although the presidents of the two associations, Henry Acres and Dan Martin (and his predecessor, William Bentsen), and the presidents of the member colleges provided valued advice, special thanks go to President Joel Smith of Denison University, who played an essential role in formulating the project.

[1]Mr. Johnstone has recently assumed the position of Executive Assistant to the President, University of Pennsylvania.

INTRODUCTION

Origins of the Study

Private colleges have viewed with increasing alarm the deterioration of their financial positions. As income from endowments and contributions has remained relatively static, cost increments have been met by the only means within institutional control--increased tuitions. Alongside the trend to a higher price structure (but not demonstrably because of it) has been the movement of students to public universities. Private colleges have found their share of enrollment dropping from 40 percent in 1960 to 26 percent in 1970. It is hardly reassuring to raise prices in the face of declining demand.

With increased educational costs has come the need to enlarge student financial assistance activities. It has been a traditional role of colleges--especially private colleges--to help students manage the cost of attending college. There is, therefore, a close bond between the overall financial situation and financial aid policies and activities.

This study, therefore, was conceived as a means of finding out how the financial viability of the private college might be strengthened through change in financial assistance programs. Stated somewhat differently, the study was proposed as a means of determining whether there were more effective ways to use existing financial aid resources. Such improvements might be brought about through different loan concepts, altered mix of aid forms, and more effective use of assistance programs external to the college.

A further objective was to see whether there were activities that could be carried out better through consortial arrangements than through the individual efforts of the 24 member colleges.

Finally, some consideration needed to be given to the factors that affect educational cost--to borrow a phrase more acceptable in industry than education, how to increase productivity. It is apparent that any reduction in or restraint of unit educational cost is of itself a powerful instrument of financial aid.

Because of the complexity of this subject, only limited attention can be given to it.[1]

The Method

Since a major purpose of the study was to determine what kinds of changes in the financial aid practices held promise for improvement, a first step was to get a clear picture of the existing financial aid situation. Accordingly a data collection instrument was devised that covered the following areas of information:

a. Data on current operating income
b. Educational costs and charges
c. Financial aid allocations and sources of these funds
d. General institutional information including size, staffing, and salary levels
e. The student "market" as indicated by applications, admissions, and matriculations
f. Loan activity and collection experience
g. Student accounts receivable
h. Financial aid administration--organization, planning, policies

When the questionnaire was circulated, the last academic year for which figures were available was 1970/71, and this is the base year generally used in the study. In order to measure trends, some of the items were back-dated.

The data were then programmed into a computer and a number of relationships were established.

What the Data Say (and to Whom)

Some of the data lend themselves to general observation. For example, all the colleges depend predominantly on tuition income to meet current operating expenses. And for most of them, the degree of dependence has increased over the past 10 years. Their charges have also increased over this period, but by no means uniformly, nor in any linear fashion. All use grants and loans in combination aid packages, and all but one include work in the package.

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[1] An ambitious study of this subject is now underway under the direction of Dartmouth College.

However, the characteristic of the bulk of the data is that patterns are hard to establish. All the colleges return some portion of their current unrestricted income as direct grants, or remissions of tuition. One might hypothesize, therefore, that these awards--made entirely at the discretion of the college--would encourage matriculation of accepted students; that is, the higher the average grant from such funds, the higher the ratio of enrollment to acceptance. A correlation coefficient of -.02 dispels any such conclusion.

What emerges is that the data display characteristics of the individual colleges. It is not significant that the practices or policies of College A differ from College B, but it may be very important that College A knows why the difference exists and that the difference is intentional.

The Organization

Given the objectives of this study and the method used in assembling and analyzing the data, the report has been organized in four parts.

The first part deals with existing practices. It sketches the financial background against which the student assistance programs must be viewed. It reviews the "market" in terms of admission experience. And finally, it summarizes the existing financial aid patterns of the member colleges.

The second part deals with directions of change. Through analysis of the data and by selected examples, the implications and consequences of some variations in existing practices are considered.

In the third part, a number of consortial activities related to financial assistance are considered.

Finally, a fourth section deals with topics related to productivity and educational costs.

The "Plight"

The literature of higher education abounds with references to the "Plight of the Private College." And since a compelling reason for making this study is to find some solutions to this plight, a reasonable beginning ought to be to seek some definition of the word and some measure of the degree of affliction.

Easier said than done.

The most recent analysis of the subject is contained in Professor Cheit's book published by the Carnegie Commission and entirely devoted to

this topic.[1] Yet I find the work singularly unhelpful, because the author uses such a vague definition of financial difficulty. A college is in (or heading for) financial difficulty, he says, "if its current financial condition results in a loss of services that are regarded as a part of its program or a loss of quality."[2]

Such a definition, I suggest, is a shaky base on which to make a judgment about an institution's financial condition. First, there is hardly a college in existence that could not eliminate or curtail some of its "services" with little measurable effect on its overall program. Second, given the capacity of educators to use the word "quality" without defining it, "loss of quality" is an unreliable measure of institutional finances.

Indeed, I would argue that it is precisely because our colleges are saddled with services and concepts of quality that cannot be quantified that presidents and planning agencies within our colleges are so hamstrung in their efforts to tailor a program which is in balance with expected income. The pressure to add is unceasing, and any curtailment results in anguished cries of calamity from affected constituencies. At the risk of overstating my point, I would argue that the college that shows the capacity to reduce services may be the very one heading out of, not into, financial difficulty.

Nevertheless, the financial problems of the colleges involved in this study are real and compelling; no quibbling about definitions will change that situation. The question then is how serious is the problem, and an inescapable measure is the cash flow--that is, the relation of total cash income to total cash expenditure.

Surplus or Deficit

Considering only the net cash position at the end of the fiscal years, the respondent colleges have managed exceptionally well over the past decade. In the 10-year interval between 1961/62 and 1970/71 most of the colleges showed

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[1] Earl F. Cheit, The New Depression in Higher Education, McGraw-Hill Book Company, New York, 1971.

[2] Cheit, p. 36.

surpluses in their educational operations (that is, not considering auxiliary enterprises like dormitories and dining halls).[1]

Table 1 shows operating surpluses and deficits accumulated over two 5-year periods--1961 to 1965 and 1966 to 1970. In the first 5-year interval 17 colleges showed surpluses, 6 deficits. The median of 23 colleges was a surplus of 2.0 percent of the total income. The second 5 years shows a clear deterioration in cash flow. Although 11 colleges still show accumulated surplus, the median operating result has shrunk to a surplus of .1 percent.

TABLE 1

OPERATING RESULTS--1961 TO 1965 AND 1966 TO 1970
(In $1000 and Percent of Total)

	1961/62 to 1965/66		1966/67 to 1970/71	
College	Surplus (Deficit)	Percent of Income	Surplus (Deficit)	Percent of Income
A	878	6.0	271	1.0
B	687	5.8	284	1.4
C	1763	5.7	3021	6.5
D	825	5.5	1102	4.6
E	596	4.6	633	3.0
F	470	3.1	(5635)	(18.5)
G	286	2.9	(4)	0
H	223	2.5	(581)	(4.3)
I	357	2.4	129	.5
J	221	2.4	(1355)	(10.0)
K	390	2.1	82	.3
L	278	2.0	(41)	(.2)
M	242	1.8	95	.5
N	114	1.2	125	.7
O	91	1.1	(43)	(.3)
P	31	.2	22	.1
Q	16	.2	110	.8
R	(8)	0	(507)	(1.7)
S	(1)	0	(572)	(2.7)
T	(5)	(.1)	(158)	1.0
U	(25)	(.4)	(673)	(5.4)
V	(216)	(2.0)	0	0
W	(149)	(2.0)	(217)	(1.5)

[1] A study like this one--in which time and money preclude in-depth interviews--is vulnerable to over-simplified conclusions based solely on examining operating figures. For example, one college may show a large deficit by virtue of having charged off accumulated losses. Another may show a surplus as the result of a large, non-recurring gift.

As one would expect, the variation in operating results over these years is considerable, but the trend is obvious--it was more difficult to achieve balanced operations in the second 5 years than in the first. All but 4 of the 23 colleges showed poorer results in the second 5-year period than in the first. And within the group were a few colleges with such large accumulated deficits (10 and 18.5 percent, for example) that one would speculate that their reserves were seriously depleted.

Cash Flow and Tuition Income

One of the few qualities that the 24 colleges have in common is dependence on tuition income as the major source of current operating funds. The role of endowments and contributions in providing reliable income is dwindling; nor is there much evidence that this situation is likely to change.

Table 2 shows the percent of current operating income that derives from

TABLE 2

TUITION AS SOURCE OF INCOME
(In Percent of Total)

College	1961/62	1970/71
W	73.9	87.9
I	79.7	85.0
R	75.3	83.9
U	68.5	82.0
A	75.7	81.1
X		80.0
N	76.3	78.5
P	69.6	77.9
V	78.6	76.9
E	69.7	76.1
J	69.2	76.1
K	70.0	74.8
Q	65.7	72.7
G	71.2	71.8
H	70.2	71.1
B	67.8	70.3
L	63.7	70.0
F	57.9	66.9
O	57.3	66.3
S	69.8	65.7
M	64.1	65.1
D	62.8	60.7
C	54.6	57.9
T	39.6	42.8
Median	69.6	73.7

student tuitions. Only 2 of the colleges received less than 60 percent of their income from tuitions in 1970/71, and the median figure was 73.7 percent, compared with 69.6 percent in 1961/62.

Higher student income means higher tuition charges, and with each price increment comes increased demand for financial assistance. Thus an inextricable relationship becomes established between financial viability and student financial aid. This study deals with that relationship.

Chapter I

CURRENT PRACTICES

What is Financial Aid?

Private colleges determine their charges on the basis of the difference between total costs and income from non-tuition sources. Public institutions base theirs on the difference between costs and legislative appropriations. Thus, no student pays the full cost of his education, and in this sense every student receives some financial aid, whether he needs it or not. However, the financial aid that is considered in this study is arbitrarily defined as the difference between the stated college charges and the payment made by the student or his parents.

It follows, therefore, that we should first look at the trend in student charges, since it is the relationship of these charges to the student's ability to pay that determines the magnitude of financial aid.

Prices, Price Trends, and Price Policies

Table 3 shows the total billed charges of the respondent colleges for 1961/62 and 1970/71. These costs include tuition, fees, room, and board. In the 10-year interval, the median price has risen from $1925 to $3325, an increase of 77 percent.

These figures of themselves do not say very much, for in a period characterized by increase in consumer prices as well as in family earnings, one should expect that educational charges would also rise. Therefore, Table 4 has been constructed to show increase over the prior year of college charges, and these figures are then compared with rate of increase in the median family income and the consumer price index. In these terms (and using the interval 1961 to 1969), college costs have risen faster (60 percent) than the price index (22 percent), but not so fast as family income (67 percent). However, what Table 4 seems to show most clearly is that there is no consistency of pattern among the colleges nor is there consistency even as to a

TABLE 3

TOTAL BILLED CHARGES
(Tuition, Fees, Room Board--In Dollars)

College	1961/62	1970/71
R	2100	3800
V	2200	3770
U	2210	3750
C	2062	3750
I	1872	3667
T	1700	3550
M	2085	3525
P	2070	3470
K	1870	3450
G	1900	3450
D	2100	3450
W	1925	3442
L	1860	3340
X		3325
J	2000	3320
S	2000	3300
Q	2000	3270
A	1575	3200
H	1760	3050
F	1500	3000
B	1620	3000
E	1950	3000
O	1725	2925
N	1400	2585
Median	1925	3325

single college. Given the private college's commitment to restrain its charges to the student, the results displayed in the table are hardly surprising. Whether or not this restraint is wise is another matter, and more will be said on this subject in the next chapter.

The True Plight

In spite of the anguished cries over the financial straits of the private colleges, there is no real evidence that the member colleges, or colleges like them, will close their doors for inability to pay their bills. The data displayed in Table 1 suggest that most have managed their financial problems adequately--albeit, one can be sure, with considerable pain. The more significant issue is whether they can continue according to their own standards of

TABLE 4

INCREASE IN TOTAL CHARGES
(In Percent Over Prior Year)

College	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71
A	7.9	5.9	5.6	10.5	4.8	9.1	8.3	11.5	10.4
B	6.2	11.6	0	10.4	4.7	8.1	8.3	15.4	0
C	10.2	3.1	9.7	0	7.9	5.1	9.4	10.1	6.8
D	7.2	6.7	4.2	4.0	3.9	3.7	5.4	8.5	7.8
E	2.6	7.5	2.3	9.1	0	10.4	0	11.3	1.7
F	8.7	9.1	11.8	5.2	9.7	6.1	2.7	8.0	11.1
G	7.6	2.9	7.4	6.2	6.3	7.1	7.1	7.7	9.5
H	0	11.9	5.1	9.7	9.3	0	6.1	8.0	7.4
I	2.4	2.9	6.4	4.3	5.0	11.8	16.5	11.9	9.4
J	5.0	4.8	4.6	6.5	6.1	5.8	5.5	5.8	8.2
K	10.7	8.7	4.5	4.3	4.1	7.9	5.5	10.4	7.8
L	9.4	7.1	7.0	6.4	4.8	4.9	4.4	11.1	5.5
M	1.2	6.3	6.4	4.0	5.0	6.2	6.9	5.6	7.6
N	0	14.3	6.3	0	6.5	5.5	10.5	10.4	11.0
O	11.3	8.6	9.4	0	0	7.9	4.9	5.8	7.2
P	0	4.8	4.2	6.6	3.7	10.4	1.6	11.2	11.2
Q	5.0	4.8	6.8	6.4	8.0	3.7	4.7	5.8	5.5
R	0	9.5	8.7	4.0	7.7	7.1	10.0	9.1	5.6
S	5.0	4.8	5.7	4.3	4.1	7.9	0	8.5	11.7
T	8.8	8.1	7.5	7.0	0	10.9	1.0	14.6	20.3
U	0	5.9	4.3	2.3	8.4	6.3	8.9	5.3	13.8
V	6.8	4.5	5.5	4.3	5.6	5.8	5.5	12.7	5.2
W	5.2	3.0	15.1	0	8.3	0	11.5	6.3	11.6
X					3.1	6.1	4.8	7.1	10.8
Median Increase	5.2	6.3	6.3	4.3	5.0	6.2	5.5	8.8	8.0
Median Family Income	4.3	5.0	4.7	6.6	6.7	7.7	8.2	9.6	
Consumer Price Index	1.0	1.7	1.2	1.6	2.7	2.8	4.2	5.6	6.5

quality and purpose. The resolution of that issue depends on the strength of the market for their programs. Given the increasing dependence on tuitions as the primary source of operating funds, the future of the private college requires that they be able to fill their rolls, and the quality of that future depends upon how selective[1] they can be in their enrollments.

In addition to number and quality of students, a new and insistent consideration has become apparent. It is the question of the net price to be charged. That is, how can full enrollment be achieved within the limits of manageable price discounts (grants) and deferred payments (loans)?

In order to explore these market considerations, it is necessary to examine (a) the ability of the colleges to fill their rolls; (b) the degree of admissions selectivity; and (c) the size of the potential market.

Ability to Fill the Rolls

The best available measure of a college's ability to enroll the number of students it needs to support a given level or program expenditure is the comparison of actual enrollment with the figures used to estimate the budgeted tuition income. Table 5 compares the actual enrollment with the enrollment presumed in estimating tuition income.

TABLE 5

FILLING THE ROLLS--ACTUAL VERSUS PREDICTED
(Actual Enrollment/Predicted in Budget--Percent)

College	1971/72	College	1971/72
S	107.3	A	100.0
J	106.9	G	100.0
E	106.0	R	99.5
L	104.1	K	99.2
X	102.0	H	97.0
P	100.7	T	95.4
B	100.3	Q	94.6
D	100.3	V	92.8
C	100.1	I	92.1

In general, the respondent colleges have been successful in meeting their estimates. In only two instances did actual enrollment fall as much

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[1] "Selective" is not used here in the specialized sense of academic potential (test scores), but rather in the broader sense of capacity to set institutional standards of admission, whatever those standards may be.

as 5 percent below predictions.[1]

Selection

Enrollment capability rests squarely on the strength of the admissions market, and this strength is commonly measured by the relationship of the number of entering students required to fill the rolls to the number of applications received. However, the admissions process must move from application to enrollment by anticipating the number of accepted students who will actually enroll.

Table 6 tabulates these two important measures of market strength--the percent of applications accepted, and the percent of those accepted who actually enroll. The figures are given over a 5-year period in order that trends may be examined.

The trends displayed are unpleasant, but hardly surprising to admissions officers. Of the 23 colleges reporting, 18 are accepting a larger percentage of their applicants in 1971 than they did in 1967. Only 3 colleges have maintained a 50 percent or lower acceptance rate in 1971.

To make the picture somewhat bleaker, the enrollment rate after acceptance has declined. All but 4 of the colleges show a lower percentage of admitted students actually matriculating over the 5-year period.

These two sets of figures add up to the necessity of accepting a larger percentage of applicants in order to fill a predetermined enrollment. How successful the colleges were in meeting their admissions target is also shown in Table 6.

The Potential Market

The acceptance rate discussed in the section above is but one measure of selectivity.[2] From the standpoint of institutional finance, an even more

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[1] In reading these figures two factors must be borne in mind. (1) The figures are based on fall enrollments and say nothing about attrition occuring during the year. (2) In some colleges enrollment estimates are, consciously or subconsciously, understated. The practice is one of the few devices by which college management can build some cushion against over-expenditures. In a sense the two factors work to offset each other.

[2] Such a measure is by no means absolute. At some colleges there is a high degree of pre-selection by the student so that applications may come much closer to admissions standards than at other colleges.

TABLE 6

SELECTION--ACCEPTANCE AND MATRICULATION
(In Percent)

College	1967/68			1971/72		
	Accepted[1]	Matriculated[2]	Target[3]	Accepted[1]	Matriculated[2]	Target[3]
A	64	70	100	82	62	96
B	71	55		87	45	
C	49	56	97	42	53	101
D	48	50		52	46	94
E	67	55	103	25	56	110
F	69	50	98	63	48	93
G	43	62	101	50	70	116
H	67	52	89	79	54	78
I	48	64	106	56	52	102
J	76	52	100	90	49	90
K	81	57	99	93	60	96
L	72	59		76	55	103
M	68	46		82	44	100
N	82	65		79	74	95
O	58	56	105	68	53	100
P	61	53	100	75	41	97
Q	80	45		86	41	89
R	78	46	92	78	39	92
S	67	52		70	43	
T	87	57	105	91	50	92
U	78	49	102	75	45	108
V	80	54		82	47	
W	86	61	114	87	45	85
X	79	51		91	41	

[1]Accepted/Applications

[2]Enrolled/Accepted

[3]Enrolled/Objective

important measure of selectivity is the capacity to select a certain number of students with the ability to pay the educational costs. It is important, therefore, to know both the gross size of the potential market and the size of that market in terms of family resources.

In 1968 Humphrey Doermann published results of studies he had made at Harvard on the potential pool of high school graduates.[1] As so often happens, this exceptionally able and important work went largely unnoticed except in admissions circles. Its message did not percolate upward in college management echelons, where concern was still largely limited to the insistent but vague worry entitled "pricing-out-of-the-market." While no one can say at what magic level price exceeds willingness to pay, here at least were some specifics as to what the size of the market was.

Table 7 estimates the pool of high school graduates in terms of family income. These figures are adapted from Doermann[2] by doubling his figures to convert from the male population he used to include female graduates.[3] The table further defines the pool in terms of SAT scores.[4]

The application of this table can be better understood if it is related to the data presented in Figure 1. This curve is drawn to display the relationships of parental contributions to taxable family income. The contribution is taken from College Scholarship Service tables for a family with 2 dependent children.[5]

The curve can be thought of as the "no-need" boundary. If the parental contribution scale is read as educational cost, then the families with income below the line will require no financial assistance. For example, the median

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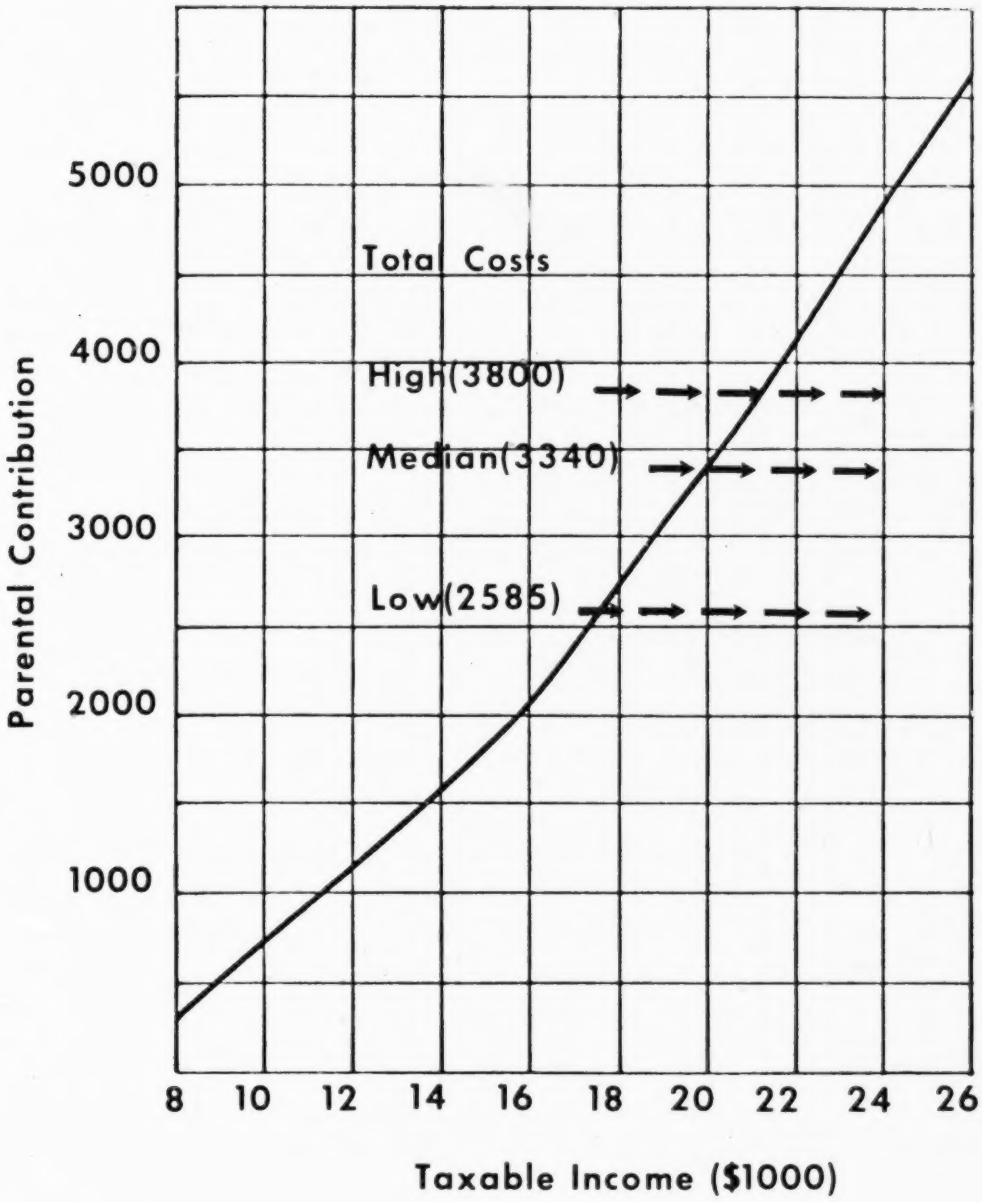
[1]Humphrey Doermann, Crosscurrents in College Admissions, Teachers College Press, New York, 1968

[2]Doermann, pp. 140-141.

[3]Although colleges converting to coeducational status rationalize the change on grounds of educational merit, one should not overlook the fact that by this conversion they are immediately doubling their potential market.

[4]Doermann's tables show populations over a considerable range of test scores. The score of 550 was arbitrarily selected for the purposes of this table as being relatively applicable to the participating colleges.

[5]CSS uses "effective" income in its tables, and defines the term as income after taxes, medical expense, and other expenditures. In Figure 1 this "net" income has been converted to its before-federal-income-tax equivalent.



PARENTS' CONTRIBUTION AS A FUNCTION OF FAMILY INCOME

Figure 1

total costs of the respondent colleges--$3340--can be met by families that have pre-tax incomes of $20,000 or more.

TABLE 7

POOL OF HIGH SCHOOL GRADUATES--1969/70
(By Family Income and SAT Scores)

Family Income	Number of High School Graduates	Graduates Scoring 550 on SAT (Verbal)
$ 000	2,900,000	166,000
4,600	2,392,000	158,000 to 168,000
7,500	1,822,000	144,000 to 164,000
10,700	1,238,000	120,000 to 156,000
16,200	626,000	80,000 to 128,000
20,000	468,000	66,000 to 112,000
25,300	316,000	50,000 to 94,000
28,800	160,000	30,000 to 62,000

NOTE: These estimates assume two coefficients of correlation between aptitude and income. The pool of graduates is presumed to lie within this range.

READ TABLE: Line 1--Total high school graduates, 2,900,000, of which 166,000 would score 550 or higher on verbal SAT.

Line 6--High school graduates from families with incomes of $20,000 or higher, 468,000, of which from 66,000 to 112,000 would score 550 or higher.

Let us now put together Table 7 and Figure 1. The combination says that the total pool of high school graduates from families with income of $20,000 or more is 468 thousand. However, if the further limitation of a minimum aptitude score of 550 now be applied, then the pool of graduates shrinks down to the range of 66 to 112 thousand. And it is in this small pool that the colleges of these associations (along with hundreds of others) are fishing.

Admitting any number of inexact assumptions that underlie these computations, the situation is still a matter of serious concern. How the colleges can face the problem will be considered later in terms of admissions planning.

The Fabric of Financial Aid

Financial aid as it exists today is a far cry from the original concept of an award or prize to the needy scholar. In its present form it is a crazy-quilt of allotments deriving from a wide variety of sources--from charitable contributions, from public funds, from the student's own labors, and, more recently, from the general income of the college. As practiced today, financial aid is the device through which the student's financial resources are brought into coincidence with the costs of attending a particular college. It may be used to enroll students with high test scores, students from deprived backgrounds, valedictorians, and, not infrequently, students who just happen to be 6 feet 7 inches tall.

How one puts together all these components is hardly a precise process, but assuredly it is an art. The practitioners of this art are among the newest professionals in academic administration; they are the financial aid officers.

How do these aid officers put the pieces together and from what sources do the pieces come?

The Aid Package

The concept of financial aid as a package is relatively recent. For many years aid was confined to outright grants of money, largely supplied by contributions for that purpose, and usually awarded on the basis of academic achievement. Somewhat later, loan funds--again established by charitable gift--came into use but on a limited basis. With the establishment of the National Defense Student Loan Program in 1958 the use of loans grew rapidly. In the 1970/71 year the 24 colleges supplying data for this study loaned $5.3 million. The concept of the student accepting responsibility for some part of the educational cost through borrowing was further enlarged with the advent of formal programs providing work opportunities for him.

As these three sources of aid--grants, loans, and work--have become established through publicly funded programs, the practice of "packaging" financial aid has become almost universal. How the respondent colleges formed their aid packages during 1970/71 is displayed in Table 8.

Before considering these figures it is important to note two important inherent limitations.

First, the dollars reported for work assistance are not consistent. It is difficult to keep track of how much a student earns and what portion of it goes to college expenses. As a result, many colleges record and report only money expended through the federal College Work Study Program. It would require much more sophisticated records than most colleges maintain to fully account for student earnings.

A second uncertainty also derives from record shortcomings. Many colleges have no system for developing and recording data on aid paid directly to the student. For example, a student may negotiate a loan directly under a state program in the state of his residence, and such assistance may go unnoted on the college records. Therefore, there are inconsistencies between the colleges deriving from differences in record systems.

TABLE 8

AID PACKAGING (1970-71)
(In Percent of Total Aid)

College	Grants	Loans	Work
U	77.9	13.3	8.8
W	77.5	19.4	3.1
K	75.8	24.2	
F	73.9	14.7	11.6
P	73.7	6.2	20.2
V	71.7	21.2	7.1
T	70.0	24.3	5.7
X	69.8	16.1	14.2
N	67.4	17.7	15.0
J	66.4	11.3	22.3
E	66.1	31.6	2.3
M	65.6	14.8	19.7
D	64.4	19.6	16.0
B	63.6	17.8	18.7
H	62.9	21.8	15.3
C	62.2	20.9	16.9
L	60.6	29.6	9.8
I	56.7	33.9	9.3
S	55.6	33.5	10.9
Q	54.8	30.9	14.3
A	53.9	30.3	15.8
G	51.8	25.1	23.1
O	51.7	15.3	33.1
R	51.1	35.4	13.5
Average	64.4	22.0	14.2

In spite of these differences, the figures can be read with useful results. They measure, for example, the relative emphasis placed upon outright remissions of cost (grants) as compared with deferred payments (loans), and the extreme

variation of these ratios must be noted if not explained. Table 9 lists the ratios of grants to loans, and does so in terms of both entering and upper class students. These ratios vary from a low of 1.5 to a high of 12.4. The rest of the colleges have ratios varying widely around the median ratio of 3.3

TABLE 9

RATIO OF GRANTS TO LOANS

College	First Year Students	Upper Class	Total
P			12.4
J	7.6	5.2	6.0
U	6.4	5.7	5.9
F	4.3	5.5	5.0
M	3.7	4.8	4.4
X			4.3
W	5.0	3.4	3.9
N	4.1	3.7	3.7
B	3.8	3.4	3.6
O			3.5
V	4.1	3.2	3.4
D	4.6	2.9	3.3
K	1.6	4.2	3.2
C	3.0	3.0	3.1
H	2.5	3.2	2.9
T	2.3	3.1	2.9
E	1.9	2.2	2.1
G	2.5	1.8	2.1
L	2.6	1.8	2.0
Q	1.8	1.7	1.8
A	1.9	1.7	1.8
I	2.0	1.5	1.7
S	2.1	1.5	1.7
R	1.8	1.2	1.5
Median	2.6	3.0	3.3

It is important to note that all the colleges emphasize grants over loans in their aid awards. A change in this practice could have a significant effect on the overall financing of student assistance, and this topic will be considered later.

The Extent of Financial Assistance

Although most of the colleges replied to a question on the objectives of their assistance programs by such phrases as "To enable worthy young people to attend our college without regard to their ability to pay," the fact is that financial assistance is a crucial factor in enabling the colleges to fill their

rolls. The extent to which colleges relied on financial aid either to meet enrollment targets or to admit the kinds of students they wanted (probably both) is displayed in the following tables.

Table 10 "normalizes" the amount of assistance granted by relating it to the dollars of tuition billed. As is evident throughout this study, the variation between colleges is very great. The amount of assistance varies between a low of 15 percent to 58 percent, and the median falls almost squarely between at 30.7 percent.[1]

Table 10 also speaks to changes in amount of assistance over a 5-year period.[2]

TABLE 10

THE EXTENT OF FINANCIAL AID--1965/66 TO 1970/71
(In Dollars and Percent of Tuition)

	1965/66			1970/71		
College	Total Tuition Income	Total Financial Aid	Percent	Total Tuition Income	Total Financial Aid	Percent
A	2801	837	29.9	5171	1532	29.6
B	2063	619	30.0	3359	1253	37.3
C	4193	1363	32.5	6478	2390	36.9
D	2182	813	37.2	3360	1292	38.5
E	2157			3818	572	15.0
F	2050			4413	2542	57.6
G	1764	431	24.4	2641	996	37.7
H	1429	438	30.6	2092	812	38.8
I	2704	538	19.2	5737	1715	29.9
J	1519	483	31.7	2245	788	35.1
K	3235	660	20.4	4078	1159	28.4
L	2350			4036	1309	32.4
M	2021	659	32.6	3122	994	31.8
N	1719	471	27.4	3401	1248	36.7
O	1450			2211	754	34.1
P	2416			4449	1040	23.4
Q	1549	441	28.5	2357	826	35.0
R	3428	639	18.6	5659	1229	21.7
S	2129	584	27.4	3356	1113	33.2
T	1305			1655	955	57.7
U	1163	278	23.9	2918	568	19.5
V	2055	956	46.5	3399	1973	58.0
W	1582	549	34.7	2902	1158	39.9
Median			30.0			30.7

[1]The complicated interrelation between aid and market must be considered when reading these figures. For example, included in College V's figures is $588,100 of grant funds deriving from state sources. College E, on the other hand, shows only $1,650 from state funds. Presumably, College V benefits from large enrollment of residents eligible for the state's scholarship program.

[2]Data for 1965/66 are taken from a study made by the writer in that year, involving most of the colleges in this project.

Although the dollar growth is very large over the interval, there is little change in the median when the assistance is related to the billed tuition.

Another measure of the extent of financial assistance is the number of students receiving some form of aid. Table 11 shows the unduplicated number of students on aid and, again, compares them with the 1965/66 year. The change relative to enrollment is slight. What Table 11 demonstrates is that financial assistance is inextricably bound to the financial viability of the institution--that is, half the students require supplements to parental income.

TABLE 11

NUMBER OF STUDENTS RECEIVING AID

	1965/66		1970/71		
College	Number Aided	Percent	Enrollment	Number Aided	Percent
A	1124	48	2677	1264	47
B	815	55	1800	721	40
C	995	49	2553	1365	53
D	803	59	1397	981	70
E			1763	403	23
F			2060		
G	481	44	1143	610	53
H	417	48	1007	433	43
I	580	32	1986	723	36
J	495	52	938	519	55
K	477	21	2370	705	30
L			1733	858	50
N	453	28	2022	1240	61
O			1365		
P			2111	496	23
Q	407	47	964	530	55
R	512	45	1750	684	39
S	481	38	1390	560	40
T			854		
U	323	44	1156	523	45
V	870	71	1409		
W	872	82	1302	718	55
Median		48			46

Source of Funds

How the colleges funded their aid program is shown in Table 12. The table indicates the sources of funds for each type of aid and does so as a percent of the total.

TABLE 12

SOURCES OF FINANCIAL AID FUNDS--1970/71
(Percent of Total)

	College Funds		Non-College Funds		
College	Unrestricted	Restricted	Federal	State	Other
A					
Grants	45.22	6.58	15.99	12.58	19.65
Loans	0.00	6.00	94.01	0.00	0.00
Work	100.00	0.00	0.00	0.00	0.00
B					
Grants	29.64	19.14	6.70	38.43	6.12
Loans	7.40	0.00	66.53	0.00	26.08
Work	85.23	0.00	14.78	0.00	0.00
C					
Grants	40.10	43.87	7.76	3.83	4.47
Loans	0.00	9.92	90.09	0.00	0.00
Work	88.63	0.00	11.38	0.00	0.00
D					
Grants	33.19	39.65	8.15	6.34	12.70
Loans	0.00	64.26	35.75	0.00	0.00
Work	84.38	15.63	0.00	0.00	0.00
E					
Grants	46.85	35.82	14.48	0.44	2.43
Loans	0.00	11.12	88.89	0.00	0.00
Work	0.00	48.14	51.87	0.00	0.00
F					
Grants	46.47	14.08	7.88	3.84	27.76
Loans	0.00	36.45	63.56	0.00	0.00
Work	73.88	8.11	18.02	0.00	0.00
G					
Grants	56.75	8.14	10.46	12.01	12.65
Loans	0.00	4.00	30.00	66.00	0.00
Work	60.87	0.00	39.14	0.00	0.00
H					
Grants	62.01	9.37	7.08	17.73	3.83
Loans	4.19	0.00	95.82	0.00	0.00
Work	80.10	0.00	19.91	0.00	0.00
I					
Grants	46.98	1.03	19.16	0.00	33.88
Loans	35.44	0.00	24.15	40.43	0.00
Work	46.43	0.00	53.58	0.00	0.00
J					
Grants	72.21	2.95	7.12	9.75	0.00
Loans	0.00	0.00	100.00	0.00	0.00
Work	100.00	0.00	0.00	0.00	0.00

TABLE 12 (Continued)

College	College Funds		Non-College Funds		
	Unrestricted	Restricted	Federal	State	Other
K					
Grants	26.81	47.52	7.58	16.72	1.39
Loans	0.00	10.00	90.00	0.00	0.00
Work	0.00	0.00	0.00	0.00	0.00
L					
Grants	77.94	10.09	6.12	5.87	0.00
Loans	60.26	0.00	39.75	0.00	0.00
Work	64.07				
N					
Grants	34.10	2.98	17.09	42.28	3.57
Loans	0.00	18.35	81.66	0.00	0.00
Work	78.73	5.36	15.92	0.00	0.00
O					
Grants	49.95	0.52	21.78	5.47	22.30
Loans	7.36	0.00	92.65	0.00	0.00
Work	70.55	0.00	29.46	0.00	0.00
P					
Grants	58.65	15.26	8.13	2.32	15.66
Loans	0.00	0.00	100.00	0.00	0.00
Work	100.00	0.00	0.00	0.00	0.00
Q					
Grants	51.73	6.41	19.43	13.38	9.07
Loans	5.47	0.00	50.85	0.00	43.70
Work	74.41	0.00	25.60	0.00	0.00
R					
Grants	70.48	17.07	8.11	4.37	0.00
Loans	3.30	15.95	80.77	0.00	0.00
Work	66.26	0.00	33.75	0.00	0.00
S					
Grants	43.04	28.54	7.46	12.08	8.90
Loans	0.00	23.92	51.49	24.60	0.00
Work	91.21	0.00	8.80	0.00	0.00
T					
Grants	69.63	9.40	0.00	14.09	6.90
Loans	0.00	16.38	66.38	17.25	0.00
Work	100.00	0.00	0.00	0.00	0.00
U					
Grants	55.86	23.62	3.83	3.86	12.85
Loans	0.00	24.64	75.37	0.00	0.00
Work	100.00	0.00	0.00	0.00	0.00
V					
Grants	33.80	14.84	2.07	41.56	7.75
Loans	0.00	0.36	99.65	0.00	0.00
Work	93.65	0.00	6.36	0.00	0.00

TABLE 12 (Continued)

College	College Funds		Non-College Funds		
	Unrestricted	Restricted	Federal	State	Other
W					
Grants	45.91	2.90	5.87	39.39	5.96
Loans	11.12	0.00	88.89	0.00	0.00
Work	57.62	0.00	42.39	0.00	0.00

Sources are divided as to college and non-college origin. College funds are further subdivided between restricted and unrestricted sources. Restricted sources include funds that are designated for aid purposes (as, for example, income from endowments established for the explicit purpose of providing scholarships). The unrestricted category includes income drawn from sources that have no restriction on their use. The largest source of such funds is the current operating income of the college.

It is important in reading this table to recognize that limitations or differences in record-keeping have major effect on the distribution of these percentages. Some colleges record only those funds that they administer, while others try to keep track of all assistance that their students receive whether disbursed through college or directly to the student. Thus, 18 colleges report "zero" loan funds from state sources, although it is obvious that these colleges draw students from states having direct lending programs for their residents.

Table 12 also makes painfully evident that private philanthropy is withering as a major source of grant assistance. Only 4 colleges have scholarship endowments large enough to supply more than 30 percent of the grant aid. It is this situation that leads increasingly to the use of unrestricted income for financial aid.

The Robin Hood Principle

As colleges attempt to put together the assorted funds provided by federal, state, and philanthropic programs into some sort of sensible assistance package, they have found it necessary to use their own unrestricted income to supplement and complement these external funds. Because the appropriation from unrestricted income makes up the difference between income

designated for aid and expenditures going to aid, it is frequently called the "subsidy gap."[1]

Stated somewhat differently, the practice involves overstating tuition to create a sum of money that is then returned to needy students as discounts from tuition. Viewed in this light, it is sometimes called the "Robin Hood Principle."

By any name, the practice is followed in all the reporting colleges. They do so, however, in widely differing degrees as can be seen in Table 13. The first column lists the dollars awarded from unrestricted income. The second column indicates what percent of the total tuition income is returned as grants. The third column shows the percent of grant funds that derived from this source.

TABLE 13

GRANTS FROM UNRESTRICTED FUNDS (1970-1971)

College	Amount ($1000)	Percent of Total Tuition Income	Percent of Total Grants
T	475	28.7	69.6
F	871	19.7	46.5
J	378	16.8	72.2
L	618	15.3	77.9
H	317	15.2	62.0
W	412	14.2	45.9
V	478	14.1	33.8
M	410	13.1	58.6
G	293	11.1	56.8
Q	248	10.7	51.7
P	449	10.1	58.7
X	529	9.5	52.9
C	596	9.2	40.1
U	260	8.9	55.9
O	195	8.8	50.0
N	287	8.4	34.1
D	276	8.2	33.2
I	458	8.0	47.0
S	266	7.9	43.0
R	442	7.8	70.5
A	373	7.2	45.2
B	236	7.0	29.6
K	235	5.8	26.8
E	177	4.6	46.9
Median		9.4	48.5

[1]For a fuller discussion of the subsidy gap see The Golden Years, by Hans H. Jenny and G. Richard Wynn, College of Wooster, 1970, pp. 97-102.

It is interesting to compare these results with those from a study made by the writer in 1965/66. Seventeen of the colleges participating in the earlier study also supplied figures for this one. The median percentage of tuitions returned as grants was about 9.5 percent in both studies.[1]

The importance of this source of financial aid funds can hardly be overstated, for it is the only source fully within the college's discretion--discretion as to both amount and use. To the extent that colleges choose to alter their financial assistance practices, these discretionary funds provide the means for doing so.

Recruitment vs. Retention

Programs of financial assistance for students historically originated with admissions officers. It was the means by which a qualified student with insufficient financial resources could be admitted. In some cases it was the competitive instrument for persuading a student to enroll in one college as opposed to another. As the complexity of administering aid programs has grown, this aspect of the educational program has been integrated into the overall administrative structure of the college, and the emphasis on admissions, while still essential, has been diluted by the need to continue support of students in the upper-class years.

A commonly heard criticism--especially among students--is that students are recruited through generous grants and then given less advantageous assistance in later years. Since grants are clearly the most desirable form of financial aid, it may be useful to compare the amount of grant money awarded to entering students with the amount awarded to upperclass students. This comparison is made in Table 14. In order that the comparison take into consideration both the total amount granted and the size of the college, an index is used. The index is the percent of the total grant money allocated to freshmen divided by the percent of freshmen in the total enrollment. Thus the index means:

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[1]Jenny and Wynn view with some alarm the growth of the subsidy gap between 1959/60 and 1967/68. During the interval they found that the gap increased from $3.2 to $8.2 million in the colleges they studied. However, if this allocation to financial aid is computed as a percent of total tuition income (which reflects increases in both enrollment and tuition rate) then the increase changed only from 6.8 to 7.5 percent during the nine-year interval.

1 - freshmen receive proportionate share

larger than 1 - freshmen receive more than proportionate share

less than 1 - freshmen receive less than proportionate share

On the basis of this tabulation, only 2 colleges appear to favor entering students to a significantly greater degree (that is, an index of 1.5 or higher) than the student body as a whole.

TABLE 14

RELATIVE ALLOCATION OF GRANTS--FIRST YEAR VERSUS UPPER CLASS
(Index--Percent First Year Grants to Percent First Year Enrollment)

College	Index	College	Index
R	1.7	D	1.0
H	1.5	Q	1.0
A	1.4	L	1.0
I	1.4	N	1.0
W	1.3	B	1.0
F	1.2	K	.9
E	1.1	V	.9
J	1.1	T	.9
G	1.1	S	.8
C	1.1	U	.7

Equal Opportunity

One of the cruelest hoaxes in the area of public assistance is the insistant use of "equal opportunity" as a phrase to describe subvention programs for children of low income families. These programs do not even approach the goal of equal opportunity. In the latest version of federal legislation the maximum sum of $1400 is called a "basic educational opportunity grant." There is nothing basic about this kind of opportunity. The maximum grant would meet only half of the billed charges at the lowest-cost college in this study.

If equal opportunity means anything in the context of higher education, it must signify that a student from the lowest economic background has the same college selection options as one from the highest income family. Quite clearly, existing and planned programs do not begin to provide this kind of equality.

Such abuse of the English language does more than mislead the student and the public, for the existence of these programs tempts the private colleges to admit students with such large financial needs that even when all the loan and work programs are parlayed into a package, a residual need remains that can be met only from the college's own resources.

One measure of the degree to which colleges are involved with high-need students is their participation in the federal Economic Opportunity Grant Program. Table 15 shows the number of students receiving these grants over a 5-year period.

TABLE 15

PARTICIPATION IN E.O.G. PROGRAMS
(Number of Students)

College	1966/67	1967/68	1968/69	1969/70	1970/71
A	94	154	132	94	46
B	31	37	68	66	61
C	59	155	206	180	130
D	37	59	71	64	73
E	40	71	88	82	66
F	103	112	135	159	146
G	48	78	82	71	71
H	35	56	72	52	45
I	104	119	136	135	195
J	18	42	53	56	59
K		72	74	73	67
L	26	44	65	74	62
M	44	72	87	68	59
N	71	165	216	194	195
O	73	94	83	93	105
P	39	30	34	21	23
Q	30	51	91	54	42
R	51	231	100	59	54
S	50	76	101	73	55
T			Do not participate		
U	0	8	20	17	18
V	42	58	39	36	36
W	46	97	94	65	69

In Table 16 these figures are converted to percentage of total enrollment. As is characteristic of most of the data in this study, a wide variety of patterns are displayed. The median participation is 4.5 percent of the total enrollment.

No data were obtained that would relate the degree of participation to some institutional policy. It is, nevertheless, an area that can use policy. The natural desire of colleges to serve low-income students can obscure the financial burden that these admissions put upon the institution. Put somewhat differently, private colleges need to ask how much of the national policy towards providing education for high-need students they can underwrite from their own resources.

TABLE 16

PARTICIPATION IN E.O.G. PROGRAMS
(Percent of Enrollment)

College	1967/68	1968/69	1969/70	1970/71
A	6.04	5.13	3.63	2.10
B	2.17	3.74	3.56	3.39
C	6.17	8.20	7.00	5.10
D	4.30	4.81	4.49	5.23
E	4.40	5.33	4.91	3.75
F	6.19	6.91	8.10	7.09
G	7.03	7.43	6.58	6.22
H	5.72	6.94	4.62	4.47
I	6.51	7.44	6.41	9.82
J	4.30	5.42	5.66	6.30
K	2.94	3.04	3.00	2.83
L	2.78	4.11	4.56	3.58
N	9.14	11.16	9.64	9.65
O	7.74	6.49	7.00	7.70
P	1.60	1.70	1.01	1.09
Q	5.10	8.97	5.31	4.36
R	15.33	5.79	3.41	3.09
S	5.94	7.48	5.51	3.96
T		Do not participate		
U	1.00	2.56	1.76	1.56
V	4.47	3.00	2.57	2.56
W	7.34			6.13

Work

Although every college in this study includes work as part of its financial aid package, it is the form of assistance most open to serious question. Indeed, considering the pay scales that the study discloses, one must raise the question as to who is aiding whom.

The 1970/71 pay scales as reported by 20 respondents are as follows:

Hourly Rate	Number of Colleges
under 1.60	1
1.60	9
1.61 to 1.65	5
1.66 to 1.70	3
over 1.70	2

If we convert the median rate of $1.60 to an annual wage by assuming an effective work week of 38 hours for 50 weeks (2 weeks allowed for vacation and/or sick leave), then the annual wage computes to $3,000. One must doubt

that many of the member colleges have pay scales as low as this for regular employees.[1]

The conclusion, then, is either that the students are underpaid, or that the value of their part-time services is far below the standard of other employees.

Another, perhaps more serious, objection to work as a form of assistance is that it presupposes availability of time on the part of students with need. If a student is to earn as little as 15 percent of the median billed costs ($3400), he must work approximately 10 hours per week for 32 weeks. To require such an assignment of time--particularly in advance of knowing his academic scheduling and academic ability--is at best unrealistic and at worst discriminatory.

More promise lies in coupling work and loan as the single unit of self-help assigned to the student. By doing so, the student has the choice of meeting his end of the financial aid obligation either through undergraduate earnings (that is, work concurrent with study) or through postgraduate earnings (that is, liquidating loans).

How student employment might be up-graded is discussed in Chapter II.

Administration of Financial Aid

If the member colleges of the two associations were in the position in which Yale says it is--that is, they admit students first and then supply whatever financial aid is required--then the administration of student financial aid might well be a technical task. It would consist of putting together the various public programs with college-assigned funds to close the difference between educational costs and parental contribution. Unfortunately, few, if any, of the colleges in this study are in such a position. Thus the financial aid officer must juggle a whole array of uncertainties into some sort of overall pattern which falls within the money at his disposal on the one hand and the inexorable financial requirements of full enrollment. Given the current level of tuitions, a shortfall of even 5 percent can have a disastrous effect on the budget predictions.

What this means, therefore, is that the decisions of the financial aid officer have impact upon all phases of the college programs. This broad

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[1] These computations will change, of course, as new federal minimums become applicable, but the comparison will still hold, albeit less invidiously.

relationship is reflected in the location of financial aid in the administrative organization.

The following tabulation indicates the line organization of financial aid.

Reports to	Number of Colleges[1]
Admissions	3
Dean of Students	8
Business Officer	4
President	3
Academic Officer or Provost	4

As to the manning of the financial aid offices, the study discloses the typical wide range of practices. The most generous assignment of personnel is 3 administrative-level people and 2 clerical; the sparest is one half-time administrator with one half-time clerk. The most common pattern is 2 people--one administrator and one clerk.

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[1]One college answered this query in a fashion that could not be tabulated: "Not clear. This is a serious answer, not a facetious one. On the organization chart he reports to the V.P. - Student Affairs. In practice he reports to and receives instructions from the President."

Chapter II

DIRECTIONS OF CHANGE

There is no sleight of hand that will solve the problems attendant upon the inextricable relation of institutional finances and student financial assistance. There is little likelihood that brilliant new concepts lie unnoticed somewhere. But this does not say that changes in current practice may not have promise, at least for some of the colleges in the associations. It is the purpose of this chapter to indicate the nature and directions of these changes.

From Expense to Asset

In the fiscal year 1970/71, the 24 member colleges diverted $9,279,000 of unrestricted current income to outright grants. These price discounts constitute current expense. If a portion of this money were loaned instead of given as gifts, that portion then would become a receivable and have asset value. Let us see how this works in terms of a particular college.

We take College P as the example. In 1970/71 College P's assistance package took the form of 74 percent outright grants, and 26 percent self-help (that is, loan plus work). In dollars the grants amounted to $766,000, of which $449,000 derived from unrestricted college income. Let us suppose that as a matter of policy this college would adopt an aid pattern of half gift, half self-help. Then, in the year 1970/71 they would have reduced their grants by 24 percent, or $185,000, and this sum would go to loans. In 10 years, the college would have created a new asset just under $2 million.

However, more important by virtue of using unrestricted funds--that is, funds the use of which is not dictated by external program--it is possible to conceive of loans in new forms and with new conditions.

Pay As You Earn

Largely through the interest of the Ford Foundation, and especially through the work of Bruce Johnstone and Stephen Dresch, a new concept of

manageable debt was developed into operational form. It was most commonly called "income contingency lending" or "pay-as-you-earn."[1]

This form of loan differs from conventional educational loans in the following respects:

1. Repayment is determined as a percentage of income. It fluctuates according to the borrower's earnings, as opposed to level payments under conventional loans.

2. Repayments are generally over a longer period of time in order to encompass the high earning years of the borrower's middle years of life.

3. The plan permits (but does not require) a sharing of risk among the borrowers. That is, borrowers with high earnings pay more than they borrow to offset under-payments by those with low earnings. This concept of "mutualization" is designed to produce a plan that has no external subsidy.

Apart from uncertainties that are inherent in any new plan, the length of the repayment period dictates a long time span before repayments are large enough to support new loans. Thus, a formidable amount of capital is required to maintain the scheme as a continuous operation. The lack of interest on the part of commercial banks in lending against these kinds of notes was in some measure responsible for the Ford Foundation's withdrawal from the program.

Nevertheless, both Duke and Yale[2] have instituted income contingency lending plans. Yale has raised capital by using unrestricted endowment as collateral for bank loans. It is unlikely that many colleges in this study would have such arrangements at their disposal.

The Harvard Plan

Harvard has put an ingenious version of income contingency lending into operation.

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[1]The definitive development of this loan concept is contained in New Patterns for College Lending: Income Contingent Loans by D. Bruce Johnstone and Stephen P. Dresch, to be published in early 1973 by Columbia University Press.

[2]For detailed descriptions of income contingent loan plans see The Yale Tuition Postponement Seminar, Yale University, New Haven, 1971; and Income Contingent Loans: Conceptual and Applied Framework for the Small College, by George Lamson, Marv Johnson, and David Lundeen, MASFAA Monograph Series, Number 2.

The administrative regulations on the Guaranteed Student Loan program are surprisingly sparse. In fact, there are only two conditions as to repayment. (1) The repayment period is limited to 10 years. (2) There is a minimum repayment schedule of $360 per year. Harvard, therefore, as a G.S.L. lending agent has taken the loan funds at its disposal and loaned them under the G.S.L. program. However, they have devised a repayment schedule that is geared to earned income. If the loan goes to default, they claim from the government under the principal guarantee. If, on the other hand, the loan is current but not fully paid because the borrower's income has been too low, then at the termination of the 10-year period the borrower may apply for either some form of continuance or forgiveness of all or part of the balance. At that point Harvard terminates the federal obligation and uses its own funds.

A Deferred Scholarship

The Harvard plan is what might be called a "deferred scholarship." The conventional scholarship looks backwards from enrollment. It is given on the basis of the family's economic position at the time of application for aid. No consideration is given to what the economic status of the student may be in the future. The possibility of converting a portion of a loan to an outright gift on the basis of post graduate economic status in effect postpones or defers a remission of tuition.

Viewed in this light, the example given earlier in this chapter assumes new meaning. That is, College P does not necessarily reduce its allocation to outright grants; it merely postpones the decision as to how much, until the student's economic position becomes clearer.

Guaranteed Student Loan Agencies

The Higher Education Act of 1965 sought to increase the availability of loan capital for student borrowing by guaranteeing the principal of such loans. Commercial banks were seen as the principal source of these loans. As early as 1968, a few colleges saw the advantage of becoming direct lending agencies under the provisions of the act. By doing so, they were able to convert their own loan funds into loans with federally guaranteed principal. However, of 23 colleges reporting, only 7 are qualified as direct lending agents.

Unfortunately, it will no longer be easy for colleges to attain the status of lending agents. The government is now requiring that two conditions be met by new applicants: (1) that there be evidence of "due diligence" in loan collections, and (2) that there be assurance of substantial available capital. The individual member colleges who are not already agents will have some trouble in meeting these requirements. However, a consortial approach to this form of lending is suggested in the next chapter.

Financial Aid Policies

The determination of who shall receive how much financial assistance, and in what form, is the administrative task of the financial aid officer. These are difficult decisions to make under any circumstances, but when the resources fall short of the demand--as they probably do in every college in this study--the judgments required begin to border on the impossible.

The task of allocating aid should become more reasonable if there were some explicit statements of financial aid policies. The data forms attempted to find out what colleges had such policies.[1] The results were not helpful.

Although 15 colleges indicated that they had written statements of financial aid policies, only 7 enclosed such statements. Most of these were financial aid pamphlets, primarily describing kinds of aid available and how to apply for it. A few colleges indicated elements of policy--as for example, the first $500 of aid to freshmen is in the form of loan or work; acceptance of the loan is a condition for the grant; if grade point falls below 2.4, all aid is in form of loan or work, etc.

Policy statements provide, at the least, some articulation of ground rules. They give assurance of even-handed distribution of available resources; they provide some basis on which to formulate a financial aid budget and to extend the budget into future years as the students move through their undergraduate years. Another factor that can be predicted to emerge more strongly in the future is student dissatisfaction with the vagueness of the policies that determine the amount and kind of aid they receive. According to a study

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[1] I was also trying to find out how useful these policies were in dealing with specific aid applications. Respondents were asked to indicate degree of usefulness on a scale from "They meet all situations" to "They provide little guidance." The responses were not enlightening except for one. It stated that the college had no explicit policies and they met all situations. This reply at least verified what happens when you put zero in the denominator.

by the College Scholarship Service, students want "better dissemination of information, reorientation in the criteria used for granting and packaging aid, and the creation of mechanisms by which students can actively participate in making the decisions that affect their lives."[1]

While no policy statements should be so explicit as to infringe upon the aid administrator's capacity to make individual judgments, the chart (Figure 2) suggests areas in which policy positions might be useful, and it then shows the kinds of decisions that would be influenced by the policies.

Policy Area	Kinds of Decisions
Academic performance	How is eligibility for aid related to academic potential (entering scores) or achievement (grades, evaluations); is amount related to performance?
Non-academic performance	How is aid related to skills (athletic, etc.)? What respective weights are assigned to academic and non-academic performance?
Other student attributes	What other factors are considered in determining aid (geography, personality, race, etc.)? How are they weighted?
Amount of aid	Is entire need covered by aid? If not, is aid some predetermined percent? Is percent related to parental income and/or social background? Does aid percent vary according to year in college?
Kind of aid (package)	Are packages uniform? Are packages related to performance, amount of need? Is student required to take loan as a condition of grant?
Special factors	Are there special policies for special groups (total need, minorities, faculty children, athletics)? Under what conditions (other than need) does aid package change?
Budgeting	To what extent will unrestricted income be used for aid? What procedures operate if anticipated aid income is not realized?

Figure 2. Checklist for Financial Aid Policies

[1] New Approaches for Student Financial Aid, Allan M. Cartter, Chairman, College Entrance Examination Board, New York, 1971, p. 38.

There is a good deal of pain associated with being specific. Even assuming that the total need of all admitted students will be met (a considerable assumption for these colleges), how should you package it? What preference is given to academic ability? What effect does amount of need have? Is year in residence a factor? How about athletics? The College Scholarship Service gives examples of how specific guidelines might operate in a situation which considers only size of need and year in residence as variables.[1] In the example a cost of $3000 per year is assumed.

Amount of Need	1st Year		2nd Year		3rd Year		4th Year	
	Grant	Self-Help	Grant	Self-Help	Grant	Self-Help	Grant	Self-Help
1500	1000	500	500	1000	0	1500	0	1500
2000	1500	500	1000	1000	500	1500	0	2000
3000	2500	500	2000	1000	1500	1500	1000	2000

My assumption is that the pattern suggested in this C.S.S. model will evoke cries of outrage from readers at the member colleges. No matter. The point is to suggest that to the extent that the model is wrong, there should be one that is much closer to right for a particular college.

Admissions Planning

The wide variation in the data developed by this study supports only a few general conclusions, but while they are exceedingly broad, they are also of compelling significance.

1. The financial viability of the member colleges rests upon tuition income.

2. The total tuition income depends upon both unit price and enrollment.

3. Because of the general practice of returning a portion of the current income in the form of discounts (grants), stated tuition is not of itself a measure of net cost.

4. By reason of outside programs of financial aid, the colleges collect their tuition income from a wide variety of sources, and these sources are frequently related to individual students.

[1] Ibid., p. 83.

The combination of these factors brings the member colleges together in having to face a common financial fact of life. It is that they must admit some number of students with no need or modest need. Stated less pleasantly, ability to pay all or most of the costs is of itself a criterion for admission. Although most colleges have in practice weighed ability to pay in admission decisions, it is not generally acceptable in academic circles to admit that a student without need has an admissions advantage over one with need.

However, given the essential relationship between capacity to pay and institutional solvency, it would appear that a more open and sophisticated approach to admissions planning needs to be developed.

Data

It would help a great deal in developing a model of admission planning if the colleges had consistent and complete data both on candidates and admitted students. That is not the case. For example, very few of the colleges have a record of the family incomes of their students except for those who have applied for financial aid. The result is that there is no way of determining what effect a given price increase will have on demand for financial assistance, and hence only an approximation can be made as to the net increase in income that will accrue from the price rise.

Of the 23 responding colleges, 5 couldn't (or, at least, didn't) provide the unduplicated number of students receiving financial assistance. Another essential piece of data that is either missing or unreliable is the amount of assistance going directly to the students. This area includes many of the state loan and scholarship programs. The need for developing a common system of financial aid records is discussed in Chapter III.

An Admissions Model

What follows, then, is an approach to pre-planned admissions using information commonly at hand. This model is built on the basis of input data fed to some automatic data processing facility in order that a series of approximations may lead to an optimum plan of admission--optimum, that is, in terms of current needs, current array of applications, and a choice of admissions criteria.

Current needs determine the strategy of the plan. These needs are:

1. Total tuition income (fixed by budget requirements)

2. Tuition rate (based on trend, policy, market)
3. Enrollment (based on physical capacity, past history, market, policy)
4. Financial assistance available

(Note: Although four factors are listed, the first is the product of the second and third.)

The variables selected for illustration are:

1. Financial assistance (kind and amount)
2. Sex
3. Academic aptitudes
4. Socio-economic background (as determined by family income)
5. Geographic origin

These variables are contained in the sample input form, shown as Figure 3. Other important criteria--for example, intended field of concentration, class standing, alumni parents, etc.--could be added.

Name of Student _____ Code No. _____

State of Residence _____

Sex _____

SAT (Verbal) _____ SAT (Math) _____ Senior Class % Standing _____

Total Cost _____

Parental Contribution _____

Need _____

State Aid Eligibility

Grant _____

Loan _____

Other Non-College Assistance

Grant _____

Loan _____

Figure 3. Sample Input Form - Admissions Planning

For purposes of illustration, current needs are taken as follows:

Projected enrollment: 1300 New students: 450

Tuition charge: $2600 Total costs: $3800

Projected tuition income: $3,400,000

Available financial assistance:

	Grants	Loans	Total
Unrestricted college funds	300,000		300,000
College administered	25,000	100,000	125,000
Total available	325,000	100,000	425,000

The first step in developing an admissions plan is to create a hypothetical distribution of the 450 entering students by size of financial need, such that the total need falls within the sum estimated to be available. The distribution might be as follows:

Need Class (average dollars)		Number	Need Total
No need	(0)	245	0
0-500	(500)	40	20,000
501-1500	(1000)	45	45,000
1501-2500	(2000)	50	100,000
2501-3500	(3000)	45	135,000
3501-full	(3800)	25	95,000
		450	395,000

The process from this point becomes one of matching applications at hand with this financial model. A first tabulation might indicate a possible match on financial need alone, but an unacceptable balance on sex. A second run could then introduce the male-female criterion. A third run might introduce the factor of geographic residence where state aid programs would have the effect of reducing need. A fourth run might correct for aptitude averages. And, finally some adjustment in the initial distribution by need could be made using the margin built into the model--that is, the difference between aid available ($425,000) and aid postulated in the model ($395,000).

The Limits of Utility

The model I have constructed here has been deliberately simplified. Much more complicated approaches can be devised, but then there is a fair chance that they will collapse under the weight of their complexity.[1]

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[1] See, for example, College Admissions Planning: Use of a Student Segmentation Model, by James E. Jewett, University of California, Berkeley, November, 1971. This study applied its theoretical concepts to the data of Ohio Wesleyan, but Ohio Wesleyan makes no use of the plan.

In the final analysis, the private colleges are juggling a formidable array of variables as they compose the financial and academic needs of these institutions with the externally imposed limitations based on applications in hand. All this or any other system of planning can do is to make the process a little more orderly, and, by its insistence on recognizing the interrelation of the variables, it may cause the colleges to be franker about their admissions practices.

Pricing Policies

One of the most sensitive decisions a college must make is how much to charge. The constant pressure towards increased expenditure derives from the rise in costs of goods and services, the need to respond to demands for salary and benefit improvements, and the insatiable aspirations for more and better educational services. When this pressure is met by increasing the educational charges, then the ever-present worry as to the response of the market emerges. Further, to the extent that the cost increase exceeds the capacity of parental resources to absorb the rise, then there is a larger demand on financial assistance. The result is that the increment of income related to the rise in price may be diminished by the amount of the increment that must be channeled back into tuition remissions.

How the respondent colleges made these price decisions is shown in Table 4 (Chapter I). Table 4 tabulates the increase in total educational costs over a 10-year period as a percent rise over the prior year. The table also enables comparison of the rates of increase of individual colleges with the median rate, the median family income and the consumer price index. This comparison is made graphically in Figure 4. Although one would have had to be privy to the long, painful debates that took place on 24 college campuses each year in order to fully understand why particular prices were finally set, the dynamics are likely to have been pretty much the same. Against the strong (and frequently boundless) demands for higher expenditure is the countervailing determination to restrain student costs.

The proposition made here is that this difficult compromise between equally valid pressures can be more easily achieved in the presence of some policy guidelines. One ingredient of such policies would be, at the least, acceptance of the need for annual increments in price of the order of the rise in cost of goods and services. If colleges manage a reduction in expenditures,

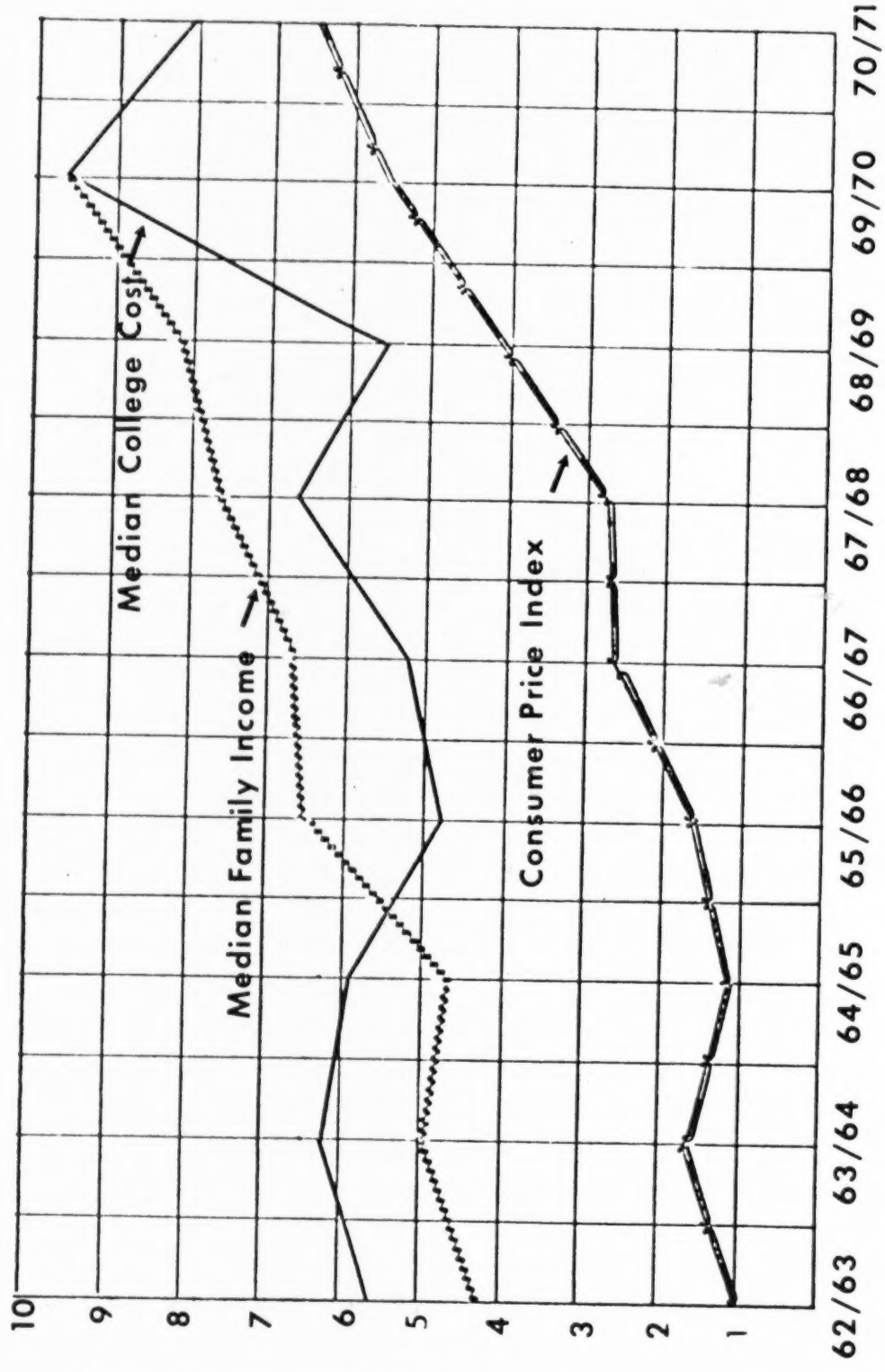

Figure 4. Increases in College Prices, Family Income, and Price Index

as the Carnegie Commission so strongly urges, or if means are found to increase productivity, as discussed in Chapter IV, then this proposition could be vacated. In the meantime, prices ought to reflect change in costs.

What could the nature of such policies be?

A basic policy might be to relate increases to the consumer price index. This would be tantamount to constant price in "adjusted dollars." To this could be added a further increment related to enlarged educational services, when these can be identified.

Another would be to relate increases to the growth in median family income, since this index is a measure of capacity to pay. Such a policy would be most likely to provide reliable increase in net income--that is, tuition receipts less grant remissions.

It is interesting to notice what would have happened to total billed costs in the interval of 1962/63 to 1970/71 if that policy had been in effect for the "median" college. In the following table, the first column shows the actual median charges for the 24 member colleges. The second column shows the percent increase in median family income over the prior year. The third column shows what the charges would have been had they been increased at the same rate as income growth.

Year	Median Charge	Family Incomes % Increases	Adjusted Median	Difference
1961/62	1925			
1962/63	2045	4.3	2007	- 38
1963/64	2170	5.0	2107	- 63
1964/65	2325	4.7	2206	- 119
1965/66	2405	6.6	2351	- 54
1966/67	2538	6.7	2508	- 30
1967/68	2727	7.7	2701	- 26
1968/69	2874	8.2	2922	+ 48
1969/70	3092	9.6	3202	+ 110
1970/71	3325	4.4	3342	+ 19

Some colleges have tried using a flat rate of increase--for example, $100 per year. If one can live with relatively fixed annual increments, this policy permits easier future planning.

Although this section suggests the need for a pricing policy that recognizes

the growth tendencies of educational costs, some colleges have opted for a "guaranteed price"; that is, they assure the entrance price throughout the 4-year enrollment interval. The practice must be viewed as a marketing device, for no college is in a position to assume constant cost for such a long period. Whether the advantages gained from the appeal of the plan offset the complications of reapportioning cost increases to following cohorts of students needs to be carefully weighed.

Cost-Price Relationship

In most areas of our economy, a comforting slogan operates--"You get what you pay for." The higher the price for a given product, the higher the quality. This principle does not extend to higher education. Someday, perhaps, someone will be bold enough to make the kind of qualitative judgment on undergraduate education that the American Council on Education has made on graduate programs. In the meantime, we can only look with amazement at the differentials in the price structure.

It has been traditional in private colleges to fix prices on the basis of the difference between cost and non-student income. Private colleges were, therefore, "charitable" institutions in the sense that clients paid only a fraction of the cost of education. That situation has changed, and, as discussed earlier, the member colleges now rely primarily on student-generated income. Nevertheless, income from endowment and gifts still is a factor in determining price.

An additional factor in the cost-price relationship has been introduced in recent years. It is the practice of redirecting current unrestricted income into grants. The effect of this practice is to reduce the net price to the average student.

The relationship of these three factors--unit cost, stated tuition, and net tuition--is displayed in Table 17 for each of the respondent colleges. If one were to apply the "you get what you pay for" philosophy, then the highest unit cost would be the "best product." However, the "best buy" would be determined by the last column, which represents "mark-down" from cost.

The issue these figures raise is whether the cost-price differentials are justified. Ignoring the average grant from unrestricted income (because these awards are based on need), the difference between unit cost and tuition

charged represents a blanket reduction in cost without regard to need. To illustrate the point, consider the median unit cost, which is about $3100. Now add a reasonably typical room and board charge of $1100.[1] The total of $4200 will be called the full educational cost.[2] According to the C.S.S. need curve (Figure 1), family incomes of $22,000 and over would not qualify for financial assistance.

TABLE 17

COST-PRICE RELATIONS

College	Unit Ed. Cost	Stated Tuition	Av. Grant From Inst. Funds	Net Tuition	Diff. Cost-Net Price
T	4515	2420	585	1835	2680
F	4316	2050	416	1634	2682
C	3916	2400	231	2169	1747
R	3884	2900	268	2632	1252
S	3714	2365	186	2179	1535
D	3689	2265	185	2080	1609
J	3681	2230	385	1845	1836
L	3275	2259	501	1758	1517
G	3209	2145	255	1890	1319
I	3126	2700	202	2498	628
Q	3076	2295	242	2053	1023
U	3073	2400	201	2199	874
H	3042	2000	284	1716	1326
V	2978	2456	333	2123	855
E	2839	2000	98	1902	937
P	2662	2150	214	1936	726
W	2620	2270	350	1920	700
B	2618	1900	134	1766	852
O	2435	1305	145	1160	1275
K	2293	2100	103	1997	296
A	2257	2100	141	1959	298
N	2104	1650	140	1510	594

The question that the member colleges are asked to face is whether subsidies to students at the top income levels are justified, given the demands for access to these colleges from low-income, and, even more significant, from middle-income families.

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[1]This figure represents the median of 11 GLCA colleges for 1970/71 as taken from Ohio Wesleyan Financial Report for that year.

[2]The figure, of course, does not represent the full cost. Were plant depreciation charged as an item of expense, the figure would be higher.

If we had data giving the income distribution of families of all currently enrolled students, then it would be possible to estimate the effect on total income of a policy of full-cost pricing. Unfortunately, that information is hard to come by. Many colleges record, or at least have on hand, the income distribution of parents of students applying for aid, but not for those who are fully self-supported.

We can, however, give a rough illustrative example, using College I's figures for its 1970/71 freshman class. This college's unit educational cost for that year was $3126. Add to that figure room, board, and fees of $967, or a total attendance cost of $4,093. According to C.S.S. standard (Figure 1), a family income of $22,000 would support that cost. The freshman profile for this year estimates that approximately 35 percent of the parents had incomes of this amount or higher--that is, about 190 students. On a full cost basis College I would have charged these students a tuition of $3126 instead of $2700. The net increase in revenue would have been $71,000.

There are, of course, penalties for capturing this added revenue. First, the increase in stated costs greatly increases the number of students eligible for aid, and it carries to the ultimate stage the allocation of current income to tuition reduction.

Perhaps more serious is the psychological effect on the market of publishing such a high gross cost, even though most of the students (in the above case, 65 percent) would receive remissions.

The Beloit Plan

Beloit will institute in the fall of 1972 a graduated tuition plan that responds to the two problems identified in the preceding section. Under this plan, families with incomes of $21,000 or more (and no other child in college) will pay the full unit cost of $3300 for a 2-term academic year. Those with lesser income pay a lower tuition according to a published scale, subject to a minimum of $500 at the $7000 income level.

In effect the Beloit plan provides for automatic tuition remission without any financial aid application. This reduces the volume of aid applications to those who seek supplemental assistance for room and board costs. The plan also deals with the problem of potential applicants who are scared off by high gross costs before they know what their net will be after filing for tuition remission.

The plan introduces a new problem, however. Were the accepted applicants

to fall predominantly at the low end of the tuition scale, total tuitions collected might fall short of the figures required by the current operating budget. Beloit hopes to forestall this situation by pre-establishing a distribution of parental incomes in their admissions such that the actual and budgeted tuition income will coincide. The process is a form of admissions planning discussed earlier in this chapter.

Helping the Student Help Himself

The pattern of financial assistance falls into three broad divisions: first, the payment by parents from current or accumulated resources; second, the outright reduction in cost through grants and tuition remissions from a combination of college and external programs; third, the portion of the cost assumed by the student himself either through current or future earnings. Of all these segments, the least reliable is current earnings.

The low rate of pay applicable to student work is the most important reason for this weakness. Low hourly rates require large segments of work time in order to make any significant contribution to the student's cost, and long hours impinge upon the student's academic responsibilities. Assuming that the student is not exploited, one must conclude that he has low productivity or skills in the work assigned to him. Neither of these qualities should be necessary attributes of student employment.

It is in the interest of the colleges to find improved ways of using student labor.

Since this study has not included any detailed examination of existing employment schemes, one can only hint at directions of improvement.

1. Establish cooperative coverage of a single position; that is 2 to 4 students team to cover one full-time job.

2. Capitalize on student know-how by using older students in advising-counseling roles.

3. Use students in night shifts when there is least conflict with academic scheduling (clerical tasks, janitorial services).

These suggestions are no more than indicative, and what seems to be needed is a follow-up examination of the subject. A task force[1] composed of

[1] It is not possible within the scope of this study to develop ideas into fully operational form. Therefore, a number of areas are identified where follow-up activity on a consortial basis has promise of producing useful change.

interested people from the member colleges should be able to bring in useful recommendations for improving the potential of work as a form of financial assistance.

Living Arrangements

One important way a college can assist a student to carry a share of his own expenses is to free him of requirements to live in college housing and to eat in college dining halls. There are very few students (especially upper-class students) who cannot establish their own style of housekeeping at a lower cost than the college's.

There is no practical way for many colleges to offer this kind of option immediately and on a blanket basis. Most of them have plant investments, debt service charges, and employment commitments that require a guaranteed level of student patronage. It is possible, however, to move gradually towards greater freedom of choice by retiring out-dated dormitory structures, by refraining from new construction, and by accepting an enrollment larger than the housing capacity. In fact, many of the colleges reporting housing data in the questionnaire already have a substantial number of students living in non-college housing.

Special Tuition Privileges

It has been customary for many years to grant special tuition privileges to children of faculty and to children of clergy in church-affiliated colleges. At a time when both clergy and college teachers were paid shabby salaries, the "shoes for the cobbler's children" philosophy was compelling. The same period in time was marked by low enrollments, so that filling empty chairs was regarded as a no-cost action. Both the salary and the enrollment situations are now very different. Further, the concept of free tuition at the "home" college has at many institutions been extended to reimbursement for costs of attendance at some other college.

So firmly established is this subsidy concept that it is probably a waste of paper to suggest the possibility of eliminating these automatic privileges by requiring that this class of applicants be subject to the same need criteria as other students. Nevertheless, it is the purpose of this study to identify potential areas of change, even though some--or even most--colleges will choose to ignore them. And here is one involving substantial expenditures.

Although the variation in number, size, and total amount of this kind of grant is very great (see Table 18), the total awarded is impressive. Twenty-one colleges reported awards totalling $967,000 in this category.

TABLE 18

BENEFIT GRANTS

College	Benefits	Number	Average
M	$ 58,005	17	$3,412
C	16,800	7	2,400
G	51,000	25	2,040
J	22,458	12	1,872
T	13,000	7	1,857
R	80,388	44	1,827
L	89,500	50	1,790
Q	27,705	16	1,732
B	39,590	24	1,650
O	7,315	5	1,463
D	62,576	46	1,360
I	6,750	5	1,350
E	53,470	40	1,337
W	60,180	48	1,254
A	80,616	67	1,203
K	123,081	110	1,119
U	22,795	21	1,085
P	88,000	85	1,036
H	7,052	15	470
F	12,375	28	442
N	0	0	0
V	0	0	0
S	44,580		

It has been argued that the question of eliminating this class of automatic assistance is not a proper topic for inclusion in a study of financial aid, since these privileges are not financial aids at all, but rather are fringe benefits. This argument has a particularly hollow ring precisely at a point in time when the National Association of College and University Business Officers and other educational associations are maintaining before the Internal Revenue Service "that these grants are scholarships or fellowships."[1]

In any event, at many colleges these sums--be they "scholarships" or "fringe benefits"--are coming off the top of financial aid allocations. In

[1] The College and University Business Officer, 30 June 1972, p. 4.

any consideration of redirection of resources, this is an area that deserves scrutiny.

Quality of Records

Since financial aid is determined by the gap between what the student can pay and total educational costs, the college needs to consider all the sources of funds available to the student. It is, therefore, unfortunate that so many colleges record only such assistance as they administer. For example, among the 23 colleges reporting, only 3 disclose loan funds deriving from state sources. Given the number of states that have loan assistance programs, the only way to explain this array of "zeroes" is by assuming that the colleges are not recording the loans which the student negotiates directly.

If the only outcome of failure to record student-generated assistance were to change the appearance of financial aid statistics, there would be little significance to the omission. However, the task of financial aid administration is to parlay all resources into the maximum total assistance. Therefore, when an aid officer grants a federal or college loan to a student who could have secured all or some of the funds from the state of his residence, he has lessened the dollars available for other students without this resource.

Another advantage deriving from full information on student-related assistance lies in its application to admissions planning. Through familiarity with programs available to the student (as opposed to the college), it may be possible to accept a student with relatively high need, if he has direct access to some non-college assistance program.[1]

Another service that adequate and automated records should provide is to disclose the relationship between price increase and net income. Since each increment in cost to the student has some impact on total financial assistance claims, it is important to know what net advantage will accrue to the college from these increases.

A further advantage of complete records will accrue if the recording

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[1]The most complete summary of programs of state support of private education that I have found is contained in "Higher Education in the States," January-February 1972, the Education Commission of the States, 1860 Lincoln Street, Denver, Colorado 80203.

systems of the member colleges are reasonably compatible. Then interchange of information becomes easy, and trends can be consistently studied. The development of a uniform record system is considered in the next chapter.

Validity of Parental Contributions

In a recent study of 63 randomly selected applications for financial aid, Allegheny College found that 56 parents had underestimated their income.[1] The study does not suggest that these underestimates are due to fraud, but rather that they may be due to inflation, or innate pessimism. The fact remains that in these cases larger aid was granted than C.S.S. standards would dictate.

Most of the member colleges may regard this as a messy area in which to become involved. It can be made a good deal less messy if the application for assistance routinely gives the college access to the federal tax return. Then, the college can, without further contact with the parent, make such checks as it deems desirable. Because their tuition is now scaled directly to family income, Beloit routinely requires such authorization.

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[1] "Belt Tightening Through Student Aid Programs," by Allen B. Edward, College and University Business Officer, December, 1971, p. 6.

Chapter III

CONSORTIAL ACTIVITIES

Introduction

One of the purposes of this study, as set forth in the original proposal, is to determine whether there are activities that can be undertaken on a consortial basis with better results than if handled by the individual colleges. This chapter will explore some of these possibilities.

The Random House Dictionary gives the word "consortium" two definitions--it is (1) a financial combination to enable activities requiring large resources, and (2) more generally, any association or partnership. This section will deal with both kinds of consortial activities.

In general, the areas nominated for consortial activity have promise of improving the overall effectiveness of the member colleges without impinging on the individuality of their educational programs.

The areas I have chosen to discuss are generally divided according to the dictionary definition. Some are a good deal more controversial and difficult to implement than others.

Financial Association

Loan accounting and collection
Financing installment payments
Guaranteed lending agency

Collective Activities

Common financial aid policies
Promotion programs
Positions on public policy
Data exchange

Loan Collections

While the use of loans has provided a powerful method for supplying operating cash, it has created some new problems. One of the most formidable of these is now clearly apparent--the collection of the loans. Unless that

problem is solved, we shall find ourselves in the position of having done little more than exchanging current expense for deferred expense.

The ingredients of the problem are not hard to identify.

1. The size of the receivables: The sheer size--both in dollars and in numbers--of the receivables has changed the complexion of the collection process. Existing procedures no longer follow individual students with attention tailored to their personal circumstances.

2. The size of the debt: Loans are determined by availability of loan funds, availability of grant funds, and educational costs. Only casual and half-hearted attention goes to the crucial factor of the future capacity of the student to repay.

3. The source of the money: Loans now derive largely from sources other than the college's own funds. Thus the college is charged with the collection of someone else's money--a situation not likely to produce the most vigorous effort.[1]

4. The cost of collection: If collection of someone else's money is not the most compelling task, doing so without compensation is downright depressing.

The answer to this unrewarding problem among the member colleges has been to unload the task on someone else. Of the 21 colleges supplying data on loan collection procedures, 15 use an outside agency for loan accounting and collection.

The data suggest that the system isn't working. Table 19 lists the extent of loan delinquencies in number and dollars among the respondent colleges. In this table the percentage figure is computed by dividing the past-due accounts by the total of accounts that have reached repayment status.

Just how bad these figures are is hard to say for the reason that we have no applicable standards for comparison. Further, there is no way of determining how many of the past-due accounts will eventually go to default. Nevertheless, the average percent of past-due accounts--19 percent as to number, and 13 percent as to dollars--is high enough for real concern.

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[1] Some measure of how effective the colleges can be when charged with collecting their own money is disclosed by the data. In the year 1970/71, 15 colleges who supplied the information charged off $61,970 in bad student accounts. In that year these same colleges billed $57 million in tuition alone (that is, not including charges for room and board), or a loss rate of about 1/10 of one percent.

TABLE 19

LOAN DELINQUENCY
(Past Due as Percent of Current)

College	Past Due (Percent) Dollars	Number	Collection Agency
T	43.5	29.6	College
V	32.8	21.9	College
P	28.5	14.2	Wachovia
O	25.5	13.1	American National
G	20.8	20.9	College
N	20.6	10.3	American National
L	14.4	13.2	College
F	13.5	-	American National
D	12.3	38.0	American National
C	12.2	28.4	College
K	10.3	31.0	American National
U	7.7	26.0	American National
A	4.0	16.5	American National
H	4.0	17.0	American National
B	3.0	11.1	American National
Q	2.4	12.6	American National
W	2.0	-	American National
S	1.8	9.5	American National
E	1.7	15.1	College
J	1.7	14.9	American National
I			College
R			American National
Average	13.1	19.0	
Median	12.2	16.5	

It probably does not help much to compare these figures with the expectancy of banks, whose losses on personal loans are in the range of one half of one percent. On the other hand, banks define what the word "loan" means, and one of these meanings is that the sum advanced will be fully repaid. If educational advances carry some different expectation, we had better coin a new word for them.

We can also compare these figures with some recent estimates supplied during congressional debates on appropriations of funds to reimburse guaranteed loans. The figures jump about between 3.5 percent and 4.2 percent, but HEW figures are generally viewed as understated. More highly regarded are the estimates of the New York Higher Assistance Corporation. As of December 31, 1971 their default rate[1] was 5.5 percent.

[1]This rate is computed as the ratio of defaulted loans purchased to all students out of school and subject to repayment.

The New York Higher Assistance Corporation is already advising some institutions with above-average delinquency rates that it will no longer guarantee their loans. In the view of Elwood Hollister, director of the agency, without some such action "the loan program could become a national scandal."

The colleges of the two associations should give heed to this warning, for failure to cope with the collection problem will assuredly influence the flow of public funds and curtail the guarantee programs.

There may be an answer to the collection problem and one that would be in the interest of the colleges. It lies in the establishment of a consortial loan collection agency.

A Consortial Loan Collection Agency[1]

To some extent a cooperative effort to collect loans exists through the common use of an outside agency to account for and collect National Defense Student Loans. Of 23 colleges reporting, 15 contract with the American National Bank of Chicago for these services. However, this arrangement, or any similar effort by a commercial enterprise, has inherent limitations.

First, the emphasis of present commercial programs is on the efficient mailing of bills to students, not the efficient collection of accounts. The billing service is designed to maintain a high cash flow at the lowest cost. This means that commercial services tend to "cream" the accounts, letting the slow payers and hardship cases slip into delinquency.

Secondly, as this kind of operation becomes more competitive with more private companies entering into billing service operations, pressure has increased towards sending more paper to students with less personal contact. The emphasis has been placed on sale of billing service and computer program development, not on collection. Indeed, the so-called collection effort is little more than a screening to determine what accounts should go to a collection agency.

There is no reason to think that the delinquency situation is going to get any better under any of the existing arrangements, and there are factors that suggest a further deterioration.

Private colleges have entered into more and more so-called "high risk" loans to low-income students. These low-income students have many accumulated economic aspirations that have priority after graduation. More affluent students

[1]This section of the report is based on the work of Dale Anderson and Harold Lewis, both of Fort Lewis College, Durango, Colorado, who acted as consultants to the writer.

are accepting--even seeking--"poverty" situations after graduation, and in all groups of students there is a trend to a more relaxed view on the obligation to repay educational loans.

Given the present methods of loan collection combined with a situation of larger receivables of poorer quality, it can be expected that increasingly harsh collection tactics will be imposed by the agencies that supply the loan capital--principally state and federal activities.

What is proposed here, therefore, is that the member colleges will establish an activity to account for and collect student loans. The agency will have specific purposes that would differentiate it from any existing commercial enterprises.

1. It recognizes that all the debtors are alumni, and its activities are influenced by this fact.

2. It emphasizes service to the college, to the borrower, and, by minimizing delinquency, to the public sources of funds.

3. It assures that all member colleges will pass any external audit on their loan collection procedures and thus meet the "due diligence" requirements of federal agencies.

A. The Operating Concept

The agency that is proposed will, by design, be directed toward collecting student loans and not merely to separating those who pay from those who don't. The emphasis will be placed on personal service, with heavy reliance on telephone communication. The agency will work closely with the colleges in preparing students for repayment and will stress the importance of communication between the student and the agency in order to differentiate genuine hardship from delinquency.

B. The Structure

The agency postulated is a non-profit cooperative endeavor of the 24 member colleges. It would have a 12-man board of directors which, in consultation with the two parent associations, would determine policies, set charges, and supervise the project's director.

The operating personnel would grow as the functions of the agency enlarge. Because the full function of the activity cannot be achieved all at once, growth is achieved best in stages.

Stage 1: The National Defense Student Loan Program constitutes the largest loan activity in these colleges. The program also has common conditions and regulations. The agency would move immediately into the area needing greatest attention--the collection of NDSL loans 90 days or more past-due. It would then move to loans 60 days past-due, and finally all past-due accounts.

Stage 2: Beginning with colleges now handling their own collections and billings, the agency would convert these accounts to its standard procedures. Colleges using commercial agencies would be absorbed next.

Stage 3: College loan funds and guaranteed student loans (where the college is a lending agency) would be added. It would also be possible for the activity to solicit collection responsibility from non-college GSL agencies or state lending agencies on a contract basis in order to capitalize on the relationships established through collection of college-administered loans.

C. The Organization

The agency is organized into two functional parts. Operations include the accounting, billing, and reporting. Collections include the procedures and activities related to follow-up of the accounts receivable. Both divisions are under the direction of an agency manager.

The cost of this organization in its initial year and its initial task (Stage 1), including supporting services, is estimated as follows.

Director	$ 20,000
Secretary	6,500
Operations Manager	14,000
Operations Clerks (2)	13,000
Collection Manager	14,000
Collection Representatives (2)	16,000
Space Rental	4,000
Equipment	10,500
Telephone (2 Watts lines)	40,800
Telephone Equipment	4,200
Computer Rental	25,000
Consultant Fees	1,000
Travel	7,500
Supplies and Contingency	22,000
Total	$198,500

The activity could be centered anywhere that provided access to sophisticated computer hardware and adequate telephone facilities. It would not need to be geographically centered as to the 24 colleges, nor in high-rent, high-salary locations.[1]

D. Allocation of Cost

It is impossible to compare the cost of this consortial agency with any existing cost, simply because no comparable job is being done. Certainly typical commercial bank charges ($500 set-up charge plus $9 annually per account) is no base line, since the emphasis is primarily on billing with limited attention to collection. What exists is a disorganized combination of billing service, collection agency activity, and more recently, the promise of an array of federal activities apparently designed to lower the boom.

Nevertheless, there is an absolute cost determination. Let us ignore the 3 percent cost allocation in federal loan programs (which does not begin to cover the cost of making the loans, much less collecting them); ignore the charges paid to banks for billing; ignore the 30 percent fees charged by collection agencies. Instead consider the agency cost in relation to the fact that the 24 colleges have about 20,000 loans totalling $13,000,000 currently receivable. In terms of the individual college, the cost averages about $8,000 per college. That cost equates to a single clerical person with modest allocation for supervision and support services.[2]

E. Bringing Some Sense to the System

Perhaps the most appealing aspect of a consortial collection agency is that it just might bring some sense to a senseless system. Colleges desperately need outside capital to finance their student charges. Students need the resource to pay the charges. The public agencies need revolving capital to meet the demand from their constituencies for educational assistance. An agency such as that one proposed ties these interests together.

If it can become operational--and successfully so--then the lending sources may see that it is in their interests to pay for these services--and

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[1]This freedom of site selection could be used as a recruiting attraction by choosing a location in an appealing area--Colorado, for example.

[2]Alternate charge methods would probably be selected. For example, each college could pay a flat fee for access to the agency plus a per-account charge. This method would differentiate more fairly between the relative work loads.

not, it should be added, by subtracting such reimbursements from the aid allocations made to the colleges. They might even be wise enough to stop deducting repayment of outstanding loans from the allocation requests of the colleges--assuredly a device to remove all incentive for the colleges to aggressively collect their loans.

F. And What It Leads To

The consortial loan agency becomes the vehicle for easy extension into other areas closely related to financing student charges. The most important of these are the financing of current accounts receivable and the establishment of a consortial Guaranteed Student Loan agency.

Accounts Receivable

For many parents, payment of college charges in the large chunks associated with the academic terms may be impractical. As a result personal finance companies have entered the field by offering installment plans. It is a highly lucrative enterprise. As colleges have recognized the high costs of these plans, more of them have begun to carry their own accounts, either to capture the net revenue available, or to reduce the costs to their students by charging rates lower than the commercial companies.

The questionnaire sought data on the size of installment accounts and the manner of collecting them. This, apparently, was not easy data to come by, for only 15 of the colleges supplied it. Among those responding, 10 carried their own accounts, 3 used commercial agencies, and 2 used a combination.

It is obvious that the collection of these current accounts involves exactly the same essential services as would be provided by the loan collection agency--automated billing and accounting, and collection procedure. By combining the two services--that is, loan and installment payments--the consortial agency has access to the net profits that accrue from the differential between the 18 percent charged by commercial companies and the 5 to 6 percent money that would be available through bank credit. It could be a policy option of the consortial agency whether to reduce the charges (and hence the costs to parents) or to use the profit of this operation in support of the loan collection activity.

For the colleges already carrying their own installment accounts there would be advantage to joining such a common effort. The 10 colleges in this

category report 11 people assigned to the operation. It is most unlikely that the loan collection agency would need this many additional people to service current accounts.

Guaranteed Student Loans

Soon after enactment of the federal Guaranteed Student Loan program, a few colleges saw the advantages that would accrue to them if they were appointed as authorized lending agencies. By channeling existing college loan funds through the GSL agency, the college made its students eligible for applicable interest benefits and got its principal guaranteed. Some were able to borrow from commercial banks at wholesale and loan the money to individual students. The number of colleges acting as lending agents has grown. Nevertheless, of 23 colleges responding on this subject, only 7 are direct lending agents.

According to HEW officials, it will not be easy for colleges to gain this status in the future. Two criteria will be applied: (1) evidence of substantial and continuing flow of capital, and (2) evidence of "due diligence" in loan collections.

The consortial collection agency that is proposed in this chapter precisely meets the second criterion. And with modest changes in personnel it can provide the first. By extending the function of the collection agency to serve also as a lending agency, a true educational banking facility begins to take shape. It is not much of an extension in promotion to see the third essential of banking added--the capacity to generate and receive "deposits." These deposits could be generated through sale of "educational bonds" (that is, obligations not competing with commercial obligations, but having appeal for their assistance to needy students), loan capital invested by the member colleges, wholesale bank borrowing, and use of the newly-established Student Loan Marketing Association (Sally Mae).

Educational Banking Cooperative

This combination of facilities for loan collection, accounts receivable financing, student lending, and promoting loan capital constitutes, in a sense, the creation of a bank in reverse. One might call the activity for a starter the "Educational Banking Cooperative." Quite clearly, its creation will require

a good deal of investigation as to feasibility, policies, and manner of participation by the member colleges. Here, then, would be a fruitful area for task force activity.

Policy Positions

As Number One Dupont Circle takes more and more educational associations under its roof, a power structure in higher education has taken shape. A number of knowledgeable people associated with the member colleges have expressed uneasiness about whether the positions taken by these national associations are giving sufficient weight to the interests of the private college typified by the GLCA and ACM membership.

There can be no question that these colleges have a major stake in the amount and kind of public assistance programs, especially those relating to financial assistance. How, then, can their particular needs and concerns be made known? This question is especially pertinent as to state programs that are vital to the member colleges, but receive less attention from the Washington lobbies.

There is a great difference of opinion among the presidents of the member colleges as to whether common positions should be sought. Nevertheless, it seems to me that a proper area of consortial activity would be, at the least, to assess the commonality of point of view on public policies, and, in some cases, to take an associated position.[1]

Any such consortial activity raises some knotty problems. Can a mechanism be devised to organize and state common concern? Can positions be taken on particular issues? How can minority positions be fairly dealt with? Should there be actual lobbying activity?

Clearly such questions as these cannot be resolved in this report. However, it would seem that this may well be a fruitful area for a task force approach.

Common Awards and Common Procedures

A characteristic of the member colleges is to adhere fiercely to independent positions. Indeed, one can argue that one of the essential contributions

[1]Considering the pervasive concern that the member colleges have about the price differential between public and private institutions, it is artificial that they should take no position on the issue of whether public universities should extend blanket subsidies without any regard for need.

that these colleges make to higher education is their variety of style. However, consensus may also bring promising results in some areas.

One area of commonality that has often been discussed, but never acted upon, is in financial aid awards. As the data presented in Chapter I clearly disclose, there is a wide variation in the packaging of financial aids. Would there be advantages in developing standard aid awards to which the member college would adhere? Stating the question differently, would the complicated negotiations necessary to establish policies of financial aid to which all or most of the member colleges could subscribe be justified by the mutual support that would result?

While no attempt will be made to answer that question in this report, we can at least raise certain points that bear on the answer.

1. Competition: Competition among the member institutions is a virtue insofar as it states the diversity of educational programs. It is doubtful, however, whether the relative attractiveness of one college's financial aid offer over another's adds a constructive element. On the other hand, elimination of competition among the member colleges does not speak at all to the competition with public or private institutions outside the associations.

2. Effecting Change: Chapter II suggests certain directions of change that have potential for increasing the reach of available aid resources (for example, reduction of grant to loan ratios, establishing specific assistance policies, elimination or reduction of automatic financial aid subsidies). The adoption of such changes would be easier if done on a consortial basis.

3. A Statement of Principle: A consortial agreement would constitute an important statement of principle. That is, financial aid is a means for enabling students with limitations on their resources to attend the college of their choice. It is not a recruiting device.

While common awards would be the most far-reaching area of consortial activity, there are other avenues of cooperative endeavor. Easiest to achieve would be the establishment of fixed dates for notifying students of the assistance award and for requiring acceptance by the student. The advantages and problems related to association-wide aid policies and practices could be profitably studied by a task force.

Data Exchange

It should not require a specific study such as this one for member colleges to compare their financial aid practices. Under present conditions lack of uniformity makes such an exchange time-consuming, and, to the extent that there is no agreement on definitions, the data that are retrievable may provide misleading comparisons.

It would seem a very desirable consortial undertaking to develop a common system for recording financial aid. The system should be designed for automatic data processing.[1] This kind of undertaking could be assigned to a task force.

The Common Market

The financial viability of the colleges of these associations rests squarely upon their capacity to fill their enrollments, and to do so within the limitations imposed by their price structure on the one hand and the financial aid resources on the other. Thus a prime concern of all the colleges is on the quality of their marketing efforts. One must question whether the current marketing techniques are adequate to meet the change in demand for higher education; especially as the change is manifested in the increased proportion of young people going to public institutions.

There is, it seems to me, splendid opportunity to develop promotional programs on a consortial basis. The diversity that makes common positions difficult in many areas becomes a virtue when it is presented as a characteristic of a group of colleges. It is this diversity that constitutes choice as the student and his parents close in on specific college plans.

By means of a consortial program, new avenues of promotion are opened. For example, general circulation advertising[2] becomes a clear possibility once it is freed from the stigma of under-demand that now falls on ads of a single college. The experience of the ACM colleges suggests that common applications may have more draw than separate applications.

A budget of sensible size for this form of marketing could be established with relatively small diversion from existing admission departments' allocations.

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[1] Of 21 colleges reporting, 10 indicate that they now use automatic data processing; 11 do not.

[2] I find it intriguing to think of a series of ads appearing in the alumni magazines of the Ivy League colleges.

The elements of establishing a common marketing program and the costs of it should be a rewarding effort for a task force.

Prepayment of College Expense

The general pattern of payment for higher education encompasses a time span from enrollment to some point in the student's postgraduate life. Parents start paying with first term bill and the obligation is completed with last installment of a student loan. The omission in this continuum is the pre-college period.

A variety of college savings plans are available under the sponsorship of savings banks and life insurance companies. They fail, however, to capture the essential element of principal growth, and most of them would have fared poorly in meeting the 10-year growth in the median college's total cost, which amounted to 72 percent. Equity investment should have done much better.

While the development of a scheme for receiving pre-payments of college expense into an equity fund has many operational problems, the most formidable one is the impact of price fluctuation on an accumulation that "matures" at a given time, even though the time is spread out over 4 undergraduate years. However, if this fund were underwritten by 24 colleges, then the short-term fluctuations could be absorbed, and the long-term trend captured.

Since no acceptable prepayment plan could be based on the assumption that payments starting 10 or more years before college would go to one of the sponsoring colleges, there would need to be advantages to the member colleges over and above assistance to parents of prospective students. The virtue of a consortial prepayment plan would lie in its promotional possibilities. It could be an important aspect of a jointly conceived marketing program.

Chapter IV

EDUCATIONAL COSTS AND FINANCIAL AID

Cost and Financial Aid

The magnitude of financial aid requirements is determined by the difference between educational charges and parental contribution. The second factor is not within the college's control (except as it makes admissions decisions) but the first is. Thus the reduction or restraint of costs can be viewed as a form of financial assistance. The dynamics that determine educational cost to the student are exceedingly complex, and this chapter does not presume to deal with the subject in any detail. Nevertheless, an attempt will be made to catalogue some of the factors that determine costs. In general these items fall into two categories--those related to productivity and those related to change in educational program.

Unit Costs

Taking credit hours as one measure of productivity, June O'Neill[1] found no increase in productivity in the interval between 1930 and 1967. She cautions, however, that this measure fails to consider the quality of the credit hours.

No data was gathered to compare her findings with the experience of the ACM-GLCA colleges. A rough measure of productivity, however, is the relation of total educational expenses to total enrollment.

Table 20 shows these unit costs for the respondent colleges for the academic year 1967/68 and compares them with the costs 4 years later. In the interval, the median rises from $2503 to $3073. This 20 percent increase must be viewed in the light of the 16 percent increase in the consumer price index that took place during these years. Also, there is no means of determining from the data of this study what qualitative changes took place.

Finally, unit cost must be considered in the light of the impact of

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[1] June O'Neill, Resource Use in Higher Education, Carnegie Commission on Higher Education, Berkeley, California, 1971.

enrollment changes. For example, among the colleges listed in the table, only one showed a decrease in unit cost. Again disregarding any qualitative considerations, the decrease resulted from an increase in expenses of about 10 percent, but an increase in enrollment of 15 percent. It is generally true that reduction in total expense is exceedingly difficult except under extreme financial pressure, but it is frequently possible to restrain growth of expense during periods of enrollment increases. Indeed, planned growth in size is one of the most powerful instruments for reducing or restraining unit cost.

TABLE 20

UNIT COSTS

College	1967/68	1970/71
R	3632	3884
T	3253	4515
C	3139	3916
F	3055	4316
S	3048	3714
D	2968	3689
H	2843	3039
J	2797	3681
U	2765	3073
L	2639	3275
G	2561	3209
Q	2443	3076
V	2420	2978
P	2284	2662
I	2257	3126
O	2238	2435
B	2152	2618
E	2136	2839
W	1958	2620
K	1933	2293
A	1803	2257
N	1720	2104
Median	2503	3073

NOTE: Unit cost equals total expense divided by enrollment.

Student-Faculty Ratios

Although the term "productivity" as applied to higher education is a complicated subject--and, in some settings, a sensitive one--there is one index that at least speaks to the subject, and it is easily determined. It is the ratio of total enrollment to the number of classroom teachers. And since the

total of faculty salaries is the largest single item in most educational budgets, the ratio assumes great importance in determining unit cost and the financial outcome of a college's operations.

The leverage that student-to-faculty ratio exerts can be well illustrated by example. Table 21 lists the student-faculty ratios for the respondent colleges,

TABLE 21

STUDENT-FACULTY RATIOS

	Fall 1967			Fall 1971		
College	Enrollment	Classroom Faculty	Ratio	Enrollment	Classroom Faculty	Ratio
O	1199	79	15.2	1346	80	16.8
H	980	69	14.2	1115	69	16.2
W	1320	83.4	15.8	1178	72.8	16.2
N	1806	120	15.1	2051	133	15.4
V	1361	90	15.1	1437	94	15.3
K	2450	188	13.0	2281	158	14.4
U	787			1295	95.8	13.5
B	1710			1765	132.3	13.3
Q	975	73	13.4	1027	78	13.2
A	2551	177	14.4	2651	203	13.1
P	1880			2098	161	13.0
R	1540	116	13.3	1650	127	13.0
M	1163	109	10.7	1251	99	12.6
E	1616	126	12.8	1813	144.5	12.5
L	1607	140	11.5	1831	148	12.4
J	983	91	10.8	982	83	11.8
F	1821	138	13.2	2097	180	11.7
D	1376	118.6	11.6	1492	127	11.7
C	2513	209.3	12.0	2587	224.4	11.5
S	1282	121	10.6	1435	128	11.2
T	891	70	12.7	811	75	10.8
G	1078	119	9.1	1150	108	10.6
Median	1540		13.2	1650		13.1

and shows a median figure of 13.1. For illustration, let us suppose that College S increases its ratio from its 1970/71 figure of 11.2 to the median figure of 13.1. Using their 1970/71 enrollment of 1435, the higher ratio would produce 110 faculty as compared with 128 under the old ratio. Now multiply the difference of 18 positions by the average salary of three faculty ranks (instructor omitted) as reported in the 1971/72 AAUP figures; namely, $16,900. The product is $304,000. If that cost reduction could be maintained for as long as two years, this college would have absorbed all the deficits

accumulated between 1967 and 1971, with something left over as surplus.[1]

While this arithmetic may be impressive, achievement of the results it promises is exceptionally difficult. For there is a built-in stability in this ratio. As indicated in Table 21, the median ratio remains unchanged in the 5-year interval.

The opportunity for increase in the ratio occurs during periods of enrollment advance, and the colleges in this study did not grow substantially in the interval shown in the table. Only 7 of the colleges increased their enrollment by as much as 10 percent.

Planning

Because the ratio has such a powerful impact on operating results, I attempted to measure the extent to which the ratio had been considered in institutional planning. One of the items in the data collection instrument asked whether "an institutionally accepted" student/faculty ratio existed. The purpose of the question was to permit comparison of such a "standard" with the actual ratio. The responses--or, more precisely, the absence of them--indicated that most of the colleges had not established any target ratio. Only 9 provided figures for this item of the questionnaire.[2]

An essential step in any effort to reduce or stabilize costs ought to be the establishment of guidelines for faculty manning followed by periodic review in the light of curricular needs.

Students to "People" Ratios

Student to faculty ratios measure the weight of academic curriculum manning, and, for most colleges, this segment of the total personnel constitutes the largest single item of expenditure. The second largest category of expense will generally be the salaries of support personnel. Table 22 shows the ratios of students to non-faculty academic employees (that is, all employees on the educational budget except maintenance workers) for the two academic years 1967/68 and 1971/72.

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[1]For a fuller treatment of this important subject, see The Turning Point by Hans H. Jenny and G. Richard Wynn, College of Wooster, p. 33 ff.

[2]A number of the respondents misunderstood the question and simply inserted the actual arithmetic ratio.

There is a much wider variation in these ratios than in the ratios of teaching faculty--presumably because the differences in student services and administrative functions are greater than in curricular programs. Nevertheless, the same consistency as was apparent in faculty ratios appears in non-faculty and administrative ratios. In the five-year period covered by the data, the median ratio changed from 16.5 to 15.4.

TABLE 22

STUDENT TO NON-FACULTY RATIOS

College	1967/68	1971/72
R	32	28
Q	25	25
C	24	24
O	21.0	21.7
U		21.6
N	20.8	18.0
A	18.2	17.8
J	17.3	17
S	16.5	16.3
B		15.4
W	15.8	15.3
H	10.3	14.5
E	12.2	11.8
L		11
F	10	10.8
K	12.5	10.8
T	12.0	10.5
D	10	10
P		7.8
G		7.6
Median	16.5	15.4

When faculty and non-faculty positions are combined, the median ratio becomes 8 students per "person." Were we to add the hourly employees of maintenance, dormitories, and dining halls, the relationship of employees to students served would begin to approach the personnel complement of a luxury cruise ship.

No experienced college administrator would think of seeking major change in unit educational cost in terms other than number of personnel. Obviously, rate of pay is important, but it is the number of people in relation to the number of students served that most significantly determines cost.

Time in Residence

Charles F. Kettering, the distinguished engineer and inventor, was committed to the idea that men were too subservient to preconceived and accepted "truths." He would frequently illustrate this view by remarking that man began to design aircraft that would fly precisely at the point he stopped putting feathers on the wings.

There are more than a few "truths" in higher education that need to be questioned. And one of these is that 4 years is the time that is needed to earn the bachelor's degree. If we consider the question of time required for the degree in the light of financial aid, it is apparent that reduction in time is of itself a powerful instrument of student assistance. For example, by devising a program that could be accomplished in 3 years, the student's cost is immediately reduced by one-quarter.

The feasibility of curtailing the length of the undergraduate program is currently under study at the State University of New York and at Princeton University. The latter institution has already developed a complete model for a 3-year course.[1]

A Mid-Way Degree

In colleges that are members of these associations--and others like them--a student is either a graduate or a "drop-out." There is no provision in the academic certification process to recognize the possibility that a student has satisfied his own educational objectives in a period short of completion of the full degree requirements.

Were it possible to specify an educational way-point short of the typical 4-year time span, then students could "graduate" with credentials appropriate to their having completed a course of study short of the AB requirements.[2] Such an option would obviously be less expensive for the student.

Off-Campus Learning

Those colleges that have successfully mounted cooperative education programs have found financial leverage in the fact that learning can take place in

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[1] "A Report to the Commission on the Future of the College," by Marvin Bressler (mimeographed document), Princeton University, 1971.

[2] In the mid-1950's Dr. A. T. M. Wilson of the Tavistock Institute in London studied in depth Antioch "drop-outs." One of his conclusions was that Antioch was operating a highly successful junior college without knowing it.

situations less costly than the classroom, the library, and the college laboratory. Any program that sets up off-campus learning situations has the potential for reducing unit educational costs. To capture this potential, however, requires either that the vacated places be filled or that a reduction in home-campus expense reflects the exported student population.

The Grass on the Other Side of the Fence

These three means of reducing student cost--shorter time to earn the degree, opportunity to earn a junior degree, and creditable off-campus learning--all have a common problem. It is that to capture their financial advantage requires a larger annual intake of students. For some colleges in this study, larger admissions quotas would be hard to accomplish especially without reduction in current academic achievement standards or without increase in financial assistance allocations.

However, there is an important asset to offset the liability. Any of these plans has potential appeal to young people and their parents. Indeed, they may strengthen the market precisely at the time when ability to recruit looms as the greatest problem.

Contracted Services

It is just a little degrading to find private colleges seeking tax-generated revenues from state and federal governments solely on the basis of financial hardship. A more satisfactory arrangement would be to relate payments to services rendered. The problem is to locate those services that increase income without corresponding increase in expense. So long as state institutions continue to expand their facilities while private colleges have under-used capacity, mutually advantageous associations should be possible. Contracted service might be on a consortial basis or with individual colleges.

The overseas programs come to mind as an example of the first kind. These programs are in existence and, in many cases, are already open to students of non-association colleges. The advantage of enlisting out-of-association students is that these enrollments are net additions to income because they do not reduce resident enrollment.[1]

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[1] A constant headache to business officers is the insistence that off-campus programs are without cost because the participating students' tuitions are credited to the off-campus program as income. That supposition is justified only if the "exported" student is replaced by a resident student.

A possible contracted service available on an individual college basis is to offer the state university student one or more year's experience in the small campus setting. Compared with the cost of setting up "inner" colleges as has been done at the University of Michigan and at Wayne State, this approach would be incomparably less costly to the state system.

In some cases special programs that supplement the university's offerings may be available at individual colleges.[1] Because of the logistic problems attendant upon the movement of students between campuses, programs of this type would, in most cases, require full-time units of residence, as, for example, an entire term.

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[1] An item in the July 9, 1972 New York Times reports that the New York State Board of Regents will contract with private colleges to enroll 500 students who are candidates for admission to the City University.

Chapter V

CONCLUSIONS AND SUMMARY

What emerges clearly from this study is the conclusion that financial aid today is a far cry from the original concept of enabling worthy students to attend the college of their choice. It has become the crucial instrument through which colleges maintain their enrollments at a level sufficient to support their programs. The financial viability of the member colleges is inextricably tied to student assistance programs. While the colleges display amazing variety in almost every area tested by the data, they all have in common one compelling restriction--income depends on enrollment and enrollment depends on financial aid. The data show that 74 percent of operating revenues come from tuition, and 46 percent of the students receive some form of aid.

The combinations through which this assistance is put together show all the variations one would expect from 24 ruggedly individual colleges. The packages have in common only that outright grants outweigh assistance through loans.

These packages derive from widely assorted sources of income--from college, philanthropic, and public funds. With such an array of programs, all the colleges have resorted to the diversion of unrestricted current income into student aid as the means for providing flexibility and cohesion. It is this kind of money--totally within the college's discretion both as to amount and use--that glues the packages together.

The size of this appropriation and the use to which it is put constitutes one of the most important issues raised by this study. In essence the practice constitutes over-stating the tuition to those who are able to pay and then returning the overage to those who need assistance. Two major policy questions are inherent in the practice.

First, how large a mark-up can be tolerated before the market support weakens? Second, how can the proceeds of this mark-up be applied to achieve the maximum return of net income?

It is unlikely that any definitive answer to the first question exists. There are simply no data at hand that relate price to market. As far as this study goes, neither the stated tuition nor the average tuition after deducting grants correlates with market position as measured by the number of applications received.

However, the second question may have answers that are worthy of exploration. One of these is to alter the ratio of grants to loans, but to do so in a setting that is somewhat different from the conventional loan. The study suggests that newly-created loan funds may be based on repayment schedules related to post graduate income with the further possibility that some of the indebtedness may be forgiven; that is, the concept of a "deferred scholarship" is introduced.

To implement this different concept of loan assistance, the establishment of a consortial lending agency is suggested. However, any enlargement of loan activity is probably doomed to failure if adequate cash flow is not assured, and for that reason the study proposes totally revised procedures for loan collections.

Other consortial activities are also discussed: the establishment of common positions on public policies, the development of consortial marketing programs, the standardization of financial aid procedures and packaging, the use of common data systems. In all of these a balance must be achieved between the potential advantages inherent to cooperative endeavors and the sacrifice of some measure of independent determination.

Finally, the report considers the relationship of cost restraint or reduction to financial aid. The factors that have the greatest influence on unit educational costs are identified in Chapter IV.

There is no magic in this report. My purpose has been to raise questions and suggest directions that have promise for more effective use of financial aid resources. The final outcome of this study will be determined by how it is used.